

WASHINGTON FEDERAL INC
Form 10-Q
May 01, 2019
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 001-34654

WASHINGTON FEDERAL, INC.
(Exact name of registrant as specified in its charter)

Washington 91-1661606
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

425 Pike Street Seattle, Washington 98101
(Address of principal executive offices and zip
code)
(206) 624-7930
(Registrant's telephone number, including area
code)

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 ("Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of class: April 29, 2019

Common stock, \$1.00 par value 80,442,401

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I

Item 1. Financial Statements (Unaudited)

The Consolidated Financial Statements of Washington Federal, Inc. and Subsidiaries filed as a part of the report are as follows:

Consolidated Statements of Financial Condition as of March 31, 2019 and September 30, 2018 3

Consolidated Statements of Operations for the three and six months ended March 31, 2019 and March 31, 2018 4

Consolidated Statements of Comprehensive Income for the three and six months ended March 31, 2019 and March 31, 2018 5

Consolidated Statements of Stockholders' Equity for the three and six months ended March 31, 2019 and March 31, 2018 6

Consolidated Statements of Cash Flows for the six months ended March 31, 2019 and March 31, 2018 8

Notes to Interim Consolidated Financial Statements 10

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 37

Item 3. Quantitative and Qualitative Disclosures About Market Risk 48

Item 4. Controls and Procedures 48

PART II

Item 1. Legal Proceedings 49

Item 1A. Risk Factors 49

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 49

Item 3. Defaults Upon Senior Securities 49

Item 4. Mine Safety Disclosures 49

Item 5. Other Information 49

Item 6. Exhibits 49

Signatures 50

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(UNAUDITED)

| | March 31, 2019 | September 30, 2018 |
|--|-----------------------------------|-----------------------|
| | (In thousands, except share data) | |
| ASSETS | | |
| Cash and cash equivalents | \$279,554 | \$268,650 |
| Available-for-sale securities, at fair value | 1,545,606 | 1,314,957 |
| Held-to-maturity securities, at amortized cost | 1,553,683 | 1,625,420 |
| Loans receivable, net of allowance for loan losses of \$133,086 and \$129,257 | 11,894,836 | 11,477,081 |
| Interest receivable | 50,790 | 47,295 |
| Premises and equipment, net | 277,010 | 267,995 |
| Real estate owned | 7,522 | 11,298 |
| FHLB and FRB stock | 138,390 | 127,190 |
| Bank owned life insurance | 219,167 | 216,254 |
| Intangible assets, including goodwill of \$301,368 and \$301,368 | 310,266 | 311,286 |
| Federal and state income tax assets, net | — | 1,804 |
| Other assets | 158,384 | 196,494 |
| | \$16,435,208 | \$15,865,724 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Customer accounts | | |
| Transaction deposit accounts | \$6,782,998 | \$6,582,343 |
| Time deposit accounts | 4,939,365 | 4,804,803 |
| | 11,722,363 | 11,387,146 |
| FHLB advances | 2,610,000 | 2,330,000 |
| Advance payments by borrowers for taxes and insurance | 25,839 | 57,417 |
| Federal and state income tax liabilities, net | 4,180 | — |
| Accrued expenses and other liabilities | 68,546 | 94,253 |
| | 14,430,928 | 13,868,816 |
| Stockholders' equity | | |
| Common stock, \$1.00 par value, 300,000,000 shares authorized; 135,506,620 and 135,343,417 shares issued; 80,435,217 and 82,710,911 shares outstanding | 135,507 | 135,343 |
| Additional paid-in capital | 1,669,860 | 1,666,609 |
| Accumulated other comprehensive income (loss), net of taxes | 8,634 | 8,294 |
| Treasury stock, at cost; 55,071,403 and 52,632,506 shares | (1,071,957) | (1,002,309) |
| Retained earnings | 1,262,236 | 1,188,971 |
| | 2,004,280 | 1,996,908 |
| | \$16,435,208 | \$15,865,724 |

SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|-----------------------------------|------------------|-----------------------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| | (In thousands, except share data) | | (In thousands, except share data) | |
| INTEREST INCOME | | | | |
| Loans receivable | \$ 141,061 | \$ 126,529 | \$ 278,126 | \$ 251,040 |
| Mortgage-backed securities | 19,343 | 17,667 | 38,535 | 34,566 |
| Investment securities and cash equivalents | 7,178 | 4,883 | 13,543 | 9,253 |
| | 167,582 | 149,079 | 330,204 | 294,859 |
| INTEREST EXPENSE | | | | |
| Customer accounts | 29,666 | 16,414 | 56,245 | 31,052 |
| FHLB advances | 17,846 | 15,364 | 34,737 | 30,771 |
| | 47,512 | 31,778 | 90,982 | 61,823 |
| Net interest income | 120,070 | 117,301 | 239,222 | 233,036 |
| Provision (release) for loan losses | 750 | (950) |) 250 | (950) |
| Net interest income after provision (release) | 119,320 | 118,251 | 238,972 | 233,986 |
| OTHER INCOME | | | | |
| Gain (loss) on sale of investment securities | — | — | (9) |) — |
| FDIC loss share valuation adjustments | — | — | — | (8,550) |
| Loan fee income | 667 | 780 | 1,637 | 1,815 |
| Deposit fee income | 5,886 | 6,403 | 12,129 | 13,089 |
| Other income | 6,257 | 5,404 | 18,062 | 13,028 |
| | 12,810 | 12,587 | 31,819 | 19,382 |
| OTHER EXPENSE | | | | |
| Compensation and benefits | 32,774 | 31,625 | 66,657 | 61,244 |
| Occupancy | 9,830 | 9,013 | 19,098 | 17,684 |
| FDIC insurance premiums | 1,978 | 2,852 | 4,840 | 5,672 |
| Product delivery | 3,545 | 3,665 | 7,566 | 7,621 |
| Information technology | 8,755 | 8,781 | 17,795 | 16,710 |
| Other expense | 11,085 | 9,851 | 23,683 | 18,797 |
| | 67,967 | 65,787 | 139,639 | 127,728 |
| Gain (loss) on real estate owned, net | 808 | (278) |) 1,128 | (232) |
| Income before income taxes | 64,971 | 64,773 | 132,280 | 125,408 |
| Income tax expense | 13,873 | 15,502 | 28,240 | 24,467 |
| NET INCOME | \$ 51,098 | \$ 49,271 | \$ 104,040 | \$ 100,941 |
| PER SHARE DATA | | | | |
| Basic earnings per share | \$ 0.63 | \$ 0.58 | \$ 1.28 | \$ 1.17 |
| Diluted earnings per share | 0.63 | 0.57 | 1.28 | 1.17 |
| Dividends paid on common stock per share | 0.20 | 0.17 | 0.38 | 0.32 |
| Basic weighted average number of shares outstanding | 80,968,050 | 85,647,494 | 81,384,456 | 86,299,885 |
| Diluted weighted average number of shares outstanding | 80,990,126 | 85,747,167 | 81,415,697 | 86,422,077 |

SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|---------------------------------|-----------|-------------------------------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| | (In thousands) | | (In thousands) | |
| Net income | \$51,098 | \$49,271 | \$104,040 | \$100,941 |
| Other comprehensive income (loss) net of tax: | | | | |
| Net unrealized gain (loss) on available-for-sale investment securities | 13,585 | (11,467) | 17,100 | (13,431) |
| Reclassification adjustment of net gain (loss) from sale of available-for-sale securities included in net income | — | — | (9) | — |
| Related tax benefit (expense) | (3,091) | 3,681 | (3,889) | 4,403 |
| | 10,494 | (7,786) | 13,202 | (9,028) |
| Net unrealized gain (loss) on cash flow hedges of borrowings | (6,150) | 10,332 | (16,650) | 17,022 |
| Related tax benefit (expense) | 1,399 | (1,651) | 3,788 | (4,110) |
| | (4,751) | 8,681 | (12,862) | 12,912 |
| Other comprehensive income (loss) net of tax | 5,743 | 895 | 340 | 3,884 |
| Comprehensive income | \$56,841 | \$50,166 | \$104,380 | \$104,825 |

SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

5

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

| (in thousands) | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
|--|-----------------|----------------------------------|----------------------|--|-------------------|--------------|
| Balance at January 1, 2019 | \$ 135,496 | \$ 1,668,666 | \$ 1,227,275 | \$ 2,891 | \$(1,051,239) | \$ 1,983,089 |
| Net income | — | — | 51,098 | — | — | 51,098 |
| Other comprehensive income (loss) | — | — | — | 5,743 | — | 5,743 |
| Dividends on common stock (\$0.20 per share) | — | — | (16,137) | — | — | (16,137) |
| Proceeds from stock-based awards | 8 | 87 | — | — | — | 95 |
| Stock-based compensation expense | 3 | 1,107 | — | — | — | 1,110 |
| Treasury stock acquired | — | — | — | — | (20,718) | (20,718) |
| Balance at March 31, 2019 | \$ 135,507 | \$ 1,669,860 | \$ 1,262,236 | \$ 8,634 | \$(1,071,957) | \$ 2,004,280 |

| (in thousands) | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
|--|-----------------|----------------------------------|----------------------|--|-------------------|--------------|
| Balance at January 1, 2018 | \$ 135,275 | \$ 1,661,866 | \$ 1,081,517 | \$ 8,004 | \$(877,044) | \$ 2,009,618 |
| Adjustment pursuant to adoption of ASU 2018-02 | — | — | (1,772) | 1,772 | — | — |
| Net income | — | — | 49,271 | — | — | 49,271 |
| Other comprehensive income (loss) | — | — | — | (877) | — | (877) |
| Dividends on common stock (\$0.17 per share) | — | — | (13,812) | — | — | (13,812) |
| Proceeds from stock-based awards | 42 | 904 | — | — | — | 946 |
| Stock-based compensation expense | 17 | 1,505 | — | — | — | 1,522 |
| Treasury stock acquired | — | — | — | — | (57,995) | (57,995) |
| Balance at March 31, 2018 | \$ 135,334 | \$ 1,664,275 | \$ 1,115,204 | \$ 8,899 | \$(935,039) | \$ 1,988,673 |

SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

6

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

| (in thousands) | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
|--|-----------------|----------------------------------|----------------------|--|-------------------|--------------|
| Balance at October 1, 2018 | \$ 135,343 | \$ 1,666,609 | \$ 1,188,971 | \$ 8,294 | \$(1,002,309) | \$ 1,996,908 |
| Net income | — | — | 104,040 | — | — | 104,040 |
| Other comprehensive income (loss) | — | — | — | 340 | — | 340 |
| Dividends on common stock (\$0.38 per share) | — | — | (30,775) | — | — | (30,775) |
| Proceeds from stock-based awards | 24 | 529 | — | — | — | 553 |
| Stock-based compensation expense | 101 | 2,761 | — | — | — | 2,862 |
| Exercise of stock warrants | 39 | (39) | — | — | — | — |
| Treasury stock acquired | — | — | — | — | (69,648) | (69,648) |
| Balance at March 31, 2019 | \$ 135,507 | \$ 1,669,860 | \$ 1,262,236 | \$ 8,634 | \$(1,071,957) | \$ 2,004,280 |

| (in thousands) | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
|--|-----------------|----------------------------------|----------------------|--|-------------------|--------------|
| Balance at October 1, 2017 | \$ 134,958 | \$ 1,660,885 | \$ 1,042,890 | \$ 5,015 | \$(838,060) | \$ 2,005,688 |
| Adjustment pursuant to adoption of ASU 2018-02 | — | — | (1,772) | 1,772 | — | — |
| Net income | — | — | 100,941 | — | — | 100,941 |
| Other comprehensive income (loss) | — | — | — | 2,112 | — | 2,112 |
| Dividends on common stock (\$0.32 per share) | — | — | (26,855) | — | — | (26,855) |
| Proceeds from stock-based awards | 56 | 1,176 | — | — | — | 1,232 |
| Stock-based compensation expense | 211 | 2,323 | — | — | — | 2,534 |
| Exercise of stock warrants | 109 | (109) | — | — | — | — |
| Treasury stock acquired | — | — | — | — | (96,979) | (96,979) |
| Balance at March 31, 2018 | \$ 135,334 | \$ 1,664,275 | \$ 1,115,204 | \$ 8,899 | \$(935,039) | \$ 1,988,673 |

SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Six Months Ended March 31, | |
|---|-------------------------------|-------------|
| | 2019 | 2018 |
| | (In thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 104,040 | \$ 100,941 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, amortization, and accretion expense, net | 14,924 | 26,756 |
| Cash received from (paid to) FDIC under loss share agreements, net | — | 1,595 |
| Stock-based compensation expense | 2,862 | 2,534 |
| Provision (release) for loan losses | 250 | (950) |
| Loss (gain) on sale of investment securities | 9 | — |
| Gain on bank owned life insurance | — | (2,416) |
| Net realized (gain) loss on sales of premises, equipment, and real estate owned | (8,379) | (1,022) |
| Decrease (increase) in accrued interest receivable | (3,495) | (2,288) |
| Decrease (increase) in federal and state income tax receivable | 1,804 | (1,414) |
| Decrease (increase) in cash surrender value of bank owned life insurance | (2,913) | (3,012) |
| Decrease (increase) in other assets | 21,460 | (8,797) |
| Increase (decrease) in federal and state income tax liabilities | 4,080 | — |
| Increase (decrease) in accrued expenses and other liabilities | (25,707) | 8,277 |
| Net cash provided by (used in) operating activities | 108,935 | 120,204 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Origination of loans and principal repayments, net | (417,355) | (199,526) |
| Loans purchased | — | (143,605) |
| FHLB & FRB stock purchased | (309,800) | (259,400) |
| FHLB & FRB stock redeemed | 298,600 | 255,400 |
| Available-for-sale securities purchased | (290,574) | (123,324) |
| Principal payments and maturities of available-for-sale securities | 75,483 | 104,733 |
| Proceeds from sales of available-for-sale securities | 491 | — |
| Held-to-maturity securities purchased | — | (170,836) |
| Principal payments and maturities of held-to-maturity securities | 70,096 | 98,781 |
| Proceeds from sales of real estate owned | 5,822 | 6,803 |
| Proceeds from settlement of bank owned life insurance | — | 3,484 |
| Cash paid for acquisitions | — | (2,211) |
| Proceeds from sales of premises and equipment | 11,622 | 1 |
| Premises and equipment purchased and REO improvements | (26,337) | (12,819) |
| Net cash provided by (used in) investing activities | (581,952) | (442,519) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase (decrease) in customer accounts | 335,369 | 304,001 |
| Proceeds from borrowings | 7,745,000 | 6,485,000 |
| Repayments of borrowings | (7,465,000) | (6,385,000) |
| Proceeds from stock-based awards | 553 | 1,232 |
| Dividends paid on common stock | (30,775) | (26,855) |
| Treasury stock purchased | (69,648) | (96,979) |
| Increase (decrease) in borrower advances related to taxes and insurance, net | (31,578) | (15,346) |
| Net cash provided by (used in) financing activities | 483,921 | 266,053 |

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| | | |
|---|-----------|-----------|
| Increase (decrease) in cash and cash equivalents | 10,904 | (56,262) |
| Cash, cash equivalents and restricted cash at beginning of period | 268,650 | 313,070 |
| Cash, cash equivalents and restricted cash at end of period | \$279,554 | \$256,808 |

(CONTINUED)

SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

8

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 (UNAUDITED)

| | Six Months Ended March 31, 2019 2018 (In thousands) | |
|--|--|---------|
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Non-cash investing activities | | |
| Real estate acquired through foreclosure | \$253 | \$1,329 |
| Non-cash financing activities | | |
| Stock issued upon exercise of warrants | 1,082 | 3,761 |
| Cash paid during the period for | | |
| Interest | 91,921 | 160,870 |
| Income taxes | 15,252 | 25,265 |

SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

9

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE A – Summary of Significant Accounting Policies

Nature of Operations - Washington Federal, Inc. (the "Company") is a Washington corporation headquartered in Seattle, Washington. The Company is a bank holding company that conducts its operations through its national bank subsidiary, Washington Federal, National Association (the "Bank"). The Bank is principally engaged in the business of attracting deposits from businesses and the general public and investing these funds, together with borrowings and other funds, in commercial and consumer loans. As used throughout this document, the terms "Washington Federal" or the "Company" refer to Washington Federal, Inc. and its consolidated subsidiaries and the term "Bank" refers to the operating subsidiary Washington Federal, National Association.

Basis of Presentation - The Company has prepared the consolidated unaudited interim financial statements included in this report. All intercompany transactions and accounts have been eliminated in consolidation. The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America ("GAAP"), requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation are reflected in the interim financial statements. Certain amounts in the financial statements from prior periods have been reclassified to conform to the current financial statement presentation.

The information included in this Form 10-Q should be read in conjunction with the financial statements and related notes in the Company's 2018 Annual Report on Form 10-K ("2018 Annual Financial Statements"). Interim results are not necessarily indicative of results for a full year.

Summary of Significant Accounting Policies - The significant accounting policies used in preparation of the Company's consolidated financial statements are disclosed in its 2018 Annual Financial Statements. There have not been any material changes in the Company's significant accounting policies compared to those contained in its 2018 Annual Financial Statements for the year ended September 30, 2018.

Restricted Cash Balances - Based on the level of vault cash on hand, the Company was not required to maintain cash reserve balances with the Federal Reserve Bank as of March 31, 2019. As of March 31, 2019 and September 30, 2018, the Company pledged cash collateral related to derivative contracts of \$18,000,000 and \$18,000,000, respectively.

Equity Securities - The Company records equity securities within Other assets in its Consolidated Statements of Financial Condition. Investments in equity securities with readily determinable fair values (marketable) are measured at fair value, with changes in the fair value recognized as a component of Other income in the Consolidated Statements of Operations. Investments in equity investments that do not have readily determinable fair values (non-marketable) are accounted for at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer, also referred to as the measurement alternative. Any adjustments to the carrying value of these investments are recorded in Other income in the Consolidated Statements of Operations.

Off-Balance-Sheet Credit Exposures - The only material off-balance-sheet credit exposures are loans in process and unused lines of credit, which had a combined balance of \$2,265,227,000 and \$2,180,162,000 at March 31, 2019 and September 30, 2018, respectively. The Company estimates losses on off-balance-sheet credit exposures by allocating a loss percentage derived from historical loss factors for each asset class.

NOTE B – New Accounting Pronouncements

In April 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2019-04, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments, that clarifies and improves areas of guidance related to the recently issued standards on credit losses (ASU 2016-13), hedging (ASU 2017-12), and recognition and measurement of financial instruments (ASU 2016-01). The amendments generally have the same effective dates as their related standards. If already adopted, the amendments of ASU 2016-01 and ASU 2016-13 are effective for fiscal years beginning after December 15, 2019 and the amendments of ASU 2017-12 are effective as of the beginning of the Company’s next annual reporting period; early adoption is permitted. The Company previously adopted both ASU 2017-12 and ASU 2016-01 and does not expect the amendments of ASU 2019-04 will have a material impact

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

on its consolidated financial statements. The Company is continuing to evaluate the impact of ASU 2016-13 and will consider the amendments of ASU 2019-04 as part of that process.

In August 2018, the FASB issued ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments also require the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, including reasonably certain renewal periods. The amendments in the ASU are effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The Company is assessing the impact that this guidance will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This ASU adds, eliminates, and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The ASU is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. Entities are also allowed to elect early adoption of the eliminated or modified disclosure requirements and delay adoption of the added disclosure requirements until their effective date. As the ASU only revises disclosure requirements, this guidance will not have a material impact on the Company's consolidated financial statements.

In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) - Targeted Improvements to provide entities with relief from the costs of implementing certain aspects of the new leasing standard, ASU No. 2016-02. Specifically, under the amendments in ASU 2018-11: (1) entities may elect not to recast the comparative periods presented when transitioning to the new leasing standard, and (2) lessors may elect to not separate non-lease components from leases when certain conditions are met. The amendments have the same effective date as ASU 2016-02 (October 1, 2019 for the Company). The Company expects to elect both transition options. ASU 2018-11 is not expected to have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses. The amendments in this ASU were issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investments in leases and other commitments to extend credit held by a reporting entity at each reporting date. The amendments require that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The ASU eliminates the current framework of recognizing probable incurred losses and instead requires an entity to use its current estimate of all expected credit losses over the contractual life. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets.

For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination ("PCD assets") that are measured at amortized cost, an allowance for expected credit losses is recorded as an adjustment to the

cost basis of the asset. Subsequent changes in estimated cash flows would be recorded as an adjustment to the allowance and through the statement of income.

Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security's cost basis.

The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For most debt securities, the transition approach requires a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period the guidance is effective. For other-than-temporarily impaired debt securities and PCD assets, the guidance will be applied prospectively. While the Company is currently in the process of evaluating the impact of the amended guidance on its consolidated financial statements, it currently expects the ALLL to increase upon adoption given that the allowance will be required to cover the full remaining expected life of the portfolio upon adoption, rather than the incurred loss model under current U.S. GAAP. The extent of this increase is still being evaluated and will depend on economic conditions and the composition of the Company's loan and lease portfolio at the time of adoption.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

In February 2016, the FASB issued ASU 2016-02, Leases. The ASU, as amended, requires lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The guidance also simplifies the accounting for sale and leaseback transactions and introduces new disclosure requirements for leasing arrangements. Accounting by lessors is largely unchanged. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company will adopt the standard effective October 1, 2019. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. The Company leases a number of properties under non-cancelable operating leases which will be subject to this ASU. We do not expect a material impact to our Consolidated Statement of Operations as a result of this ASU. While the Company has not quantified the impact to its Consolidated Statement of Condition, the Company expects to recognize right-of-use assets and lease liabilities for substantially all of its operating lease commitments based on the present value of unpaid lease payments as of the date of adoption. For information on the Company's future minimum lease payments, refer to Note I Premises and Equipment in our Annual Report on Form 10-K for the year ended September 30, 2018.

NOTE C – Dividends and Share Repurchases

On February 22, 2019, the Company paid a regular dividend on common stock of \$0.20 per share, which represented the 144th consecutive quarterly cash dividend. Dividends per share were \$0.20 and \$0.17 for the quarters ended March 31, 2019 and 2018, respectively. On April 29, 2019, the Company declared a regular dividend on common stock of \$0.20 per share, which represents its 145th consecutive quarterly cash dividend. This dividend will be paid on May 24, 2019 to common shareholders of record on May 10, 2019.

For the three months ended March 31, 2019, the Company repurchased 698,705 shares at an average price of \$29.65. As of March 31, 2019, there are 9,593,701 remaining shares authorized to be repurchased under the current Board approved share repurchase program.

NOTE D – Loans Receivable

The following table is a summary of loans receivable.

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

| | March 31, 2019 | | September 30, 2018 | |
|--|----------------|--------|--------------------|--------|
| | (In thousands) | | (In thousands) | |
| Gross loans by category | | | | |
| Single-family residential | \$5,861,404 | 44.3 % | \$5,798,966 | 45.1 % |
| Construction | 1,980,274 | 15.0 | 1,890,668 | 14.7 |
| Construction - custom | 586,515 | 4.4 | 624,479 | 4.9 |
| Land - acquisition & development | 194,739 | 1.5 | 155,204 | 1.2 |
| Land - consumer lot loans | 97,152 | 0.7 | 102,036 | 0.8 |
| Multi-family | 1,423,723 | 10.7 | 1,385,125 | 10.8 |
| Commercial real estate | 1,570,502 | 11.9 | 1,452,168 | 11.3 |
| Commercial & industrial | 1,230,888 | 9.3 | 1,140,874 | 8.9 |
| HELOC | 139,203 | 1.0 | 130,852 | 1.0 |
| Consumer | 156,002 | 1.2 | 173,306 | 1.3 |
| Total gross loans | 13,240,402 | 100 % | 12,853,678 | 100 % |
| Less: | | | | |
| Allowance for loan losses | 133,086 | | 129,257 | |
| Loans in process | 1,162,787 | | 1,195,506 | |
| Net deferred fees, costs and discounts | 49,693 | | 51,834 | |
| Total loan contra accounts | 1,345,566 | | 1,376,597 | |
| Net loans | \$11,894,836 | | \$11,477,081 | |

The following table sets forth information regarding non-accrual loans.

| | March 31, 2019 | | September 30, 2018 | |
|----------------------------------|-----------------------------------|--------|--------------------|--------|
| | (In thousands, except ratio data) | | | |
| Non-accrual loans: | | | | |
| Single-family residential | \$24,474 | 50.0 % | \$27,643 | 49.6 % |
| Construction | 1,282 | 2.6 | 2,427 | 4.4 |
| Land - acquisition & development | 242 | 0.5 | 920 | 1.7 |
| Land - consumer lot loans | 579 | 1.2 | 787 | 1.4 |
| Commercial real estate | 9,162 | 18.7 | 8,971 | 16.1 |
| Commercial & industrial | 12,366 | 25.3 | 14,394 | 25.8 |
| HELOC | 812 | 1.7 | 523 | 0.9 |
| Consumer | 24 | — | 21 | — |
| Total non-accrual loans | \$48,941 | 100 % | \$55,686 | 100 % |
| % of total net loans | 0.41 | % | 0.49 | % |

The Company recognized interest income on non-accrual loans of approximately \$1,571,000 in the six months ended March 31, 2019. Had these loans been on accrual status and performed according to their original contract terms, the Company would have recognized interest income of approximately \$1,151,000 for the six months ended March 31, 2019. Recognized interest income for the six months ended March 31, 2019 was higher than what otherwise would have been collected in the period due to the collection of past due amounts. Interest cash flows collected on non-accrual loans vary from period to period as those loans are brought current or are paid off.

The following tables provide details regarding delinquent loans.

13

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

| March 31, 2019 | Loans Receivable Net of Loans In Process | Days Delinquent Based on \$ Amount of Loans | | | | | Total Delinquent | % based on \$ |
|----------------------------------|---|---|-----------|----------|-----------|-----------|---------------------|------------------|
| | | Current | 30 | 60 | 90 | | | |
| Type of Loan | (In thousands, except ratio data) | | | | | | | |
| Single-family residential | \$5,860,365 | \$5,830,848 | \$ 10,018 | \$ 2,672 | \$ 16,827 | \$ 29,517 | 0.50 % | |
| Construction | 1,139,970 | 1,138,688 | — | — | 1,282 | 1,282 | 0.11 | |
| Construction - custom | 307,405 | 306,929 | — | 476 | — | 476 | 0.15 | |
| Land - acquisition & development | 152,546 | 152,394 | 152 | — | — | 152 | 0.10 | |
| Land - consumer lot loans | 97,033 | 96,278 | 502 | — | 253 | 755 | 0.78 | |
| Multi-family | 1,423,701 | 1,422,270 | 1,431 | — | — | 1,431 | 0.10 | |
| Commercial real estate | 1,570,502 | 1,566,393 | 743 | — | 3,366 | 4,109 | 0.26 | |
| Commercial & industrial | 1,230,888 | 1,221,571 | 311 | — | 9,006 | 9,317 | 0.76 | |
| HELOC | 139,203 | 137,982 | 388 | 229 | 604 | 1,221 | 0.88 | |
| Consumer | 156,002 | 155,749 | 91 | 16 | 146 | 253 | 0.16 | |
| Total Loans | \$12,077,615 | \$12,029,102 | \$13,636 | \$3,393 | \$31,484 | \$48,513 | 0.40 % | |
| Delinquency % | | 99.60% | 0.11% | 0.03% | 0.26% | 0.40% | | |

| September 30, 2018 | Loans Receivable Net of Loans In Process | Days Delinquent Based on \$ Amount of Loans | | | | | Total Delinquent | % based on \$ |
|----------------------------------|---|---|----------|----------|-----------|-----------|---------------------|------------------|
| | | Current | 30 | 60 | 90 | | | |
| Type of Loan | (In thousands, except ratio data) | | | | | | | |
| Single-family residential | \$5,798,353 | \$5,768,253 | \$ 7,983 | \$ 3,562 | \$ 18,555 | \$ 30,100 | 0.52 % | |
| Construction | 1,062,855 | 1,060,428 | — | — | 2,427 | 2,427 | 0.23 | |
| Construction - custom | 289,192 | 289,192 | — | — | — | — | — | |
| Land - acquisition & development | 123,560 | 122,620 | — | 270 | 670 | 940 | 0.76 | |
| Land - consumer lot loans | 101,908 | 101,294 | 144 | 117 | 353 | 614 | 0.60 | |
| Multi-family | 1,385,103 | 1,385,103 | — | — | — | — | — | |
| Commercial real estate | 1,452,169 | 1,448,946 | 316 | 1,767 | 1,140 | 3,223 | 0.22 | |
| Commercial & industrial | 1,140,874 | 1,130,836 | — | — | 10,038 | 10,038 | 0.88 | |
| HELOC | 130,852 | 129,510 | 567 | 469 | 306 | 1,342 | 1.03 | |
| Consumer | 173,306 | 172,777 | 172 | 328 | 29 | 529 | 0.31 | |
| Total Loans | \$11,658,172 | \$11,608,959 | \$9,182 | \$6,513 | \$33,518 | \$49,213 | 0.42 % | |
| Delinquency % | | 99.58% | 0.08% | 0.06% | 0.29% | 0.42% | | |

The percentage of total delinquent loans was 0.40% as of March 31, 2019 and 0.42% as of September 30, 2018. There are no loans greater than 90 days delinquent and still accruing interest as of either date.

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following table provides information related to loans restructured in a troubled debt restructuring ("TDR") during the periods presented:

| | Three Months Ended March 31, 2019 | | | 2018 | | |
|-------------------------------|--------------------------------------|----------------------------------|---|---------------------------------|----------------------------------|---|
| | Pre-Modification Outstanding | Post-Modification Outstanding | Number of Recorded Contracts Investment (\$ in thousands) | Pre-Modification Outstanding | Post-Modification Outstanding | Number of Recorded Contracts Investment (\$ in thousands) |
| Troubled Debt Restructurings: | | | | | | |
| Single-family residential | 2 \$ 39 | \$ 39 | | 12 \$ 2,183 | \$ 2,183 | |
| Land - consumer lot loans | 1 40 | 40 | | — — | — | |
| | 3 \$ 79 | \$ 79 | | 12 \$ 2,183 | \$ 2,183 | |
| | Six Months Ended March 31, 2019 | | | 2018 | | |
| | Pre-Modification Outstanding | Post-Modification Outstanding | Number of Recorded Contracts Investment (\$ in thousands) | Pre-Modification Outstanding | Post-Modification Outstanding | Number of Recorded Contracts Investment (\$ in thousands) |
| Troubled Debt Restructurings: | | | | | | |
| Single-family residential | 3 \$ 323 | \$ 323 | | 20 \$ 4,195 | \$ 4,195 | |
| Land - consumer lot loans | 1 40 | 40 | | — — | — | |
| Commercial & Industrial | — — | — | | 3 7,256 | 7,256 | |
| | 4 \$ 363 | \$ 363 | | 23 \$ 11,451 | \$ 11,451 | |

The following table provides information on payment defaults occurring during the periods presented where the loan had been modified in a TDR within 12 months of the payment default.

| | Three Months Ended March 31, | |
|--|--|--|
| | 2019 | 2018 |
| | Number of Recorded Contracts Investment (\$ in thousands) | Number of Recorded Contracts Investment (\$ in thousands) |
| Trouble Debt Restructurings That Subsequently Defaulted: | | |
| Single-family residential | 4 \$ 755 | 1 \$ 162 |
| | 4 \$ 755 | 1 \$ 162 |

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

| | Six Months Ended March | |
|--|------------------------|--------------------|
| | 2019 | 2018 |
| | Number of Recorded | Number of Recorded |
| | Contract | Contract |
| | (\$ in thousands) | (\$ in thousands) |
| Trouble Debt Restructurings That Subsequently Defaulted: | | |
| Single-family residential | 5 \$ 1,298 | 2 \$ 206 |
| | 5 \$ 1,298 | 2 \$ 206 |

Most loans restructured in TDRs are accruing and performing loans where the borrower has proactively approached the Company about modification due to temporary financial difficulties. As of March 31, 2019, 96.9% of the Company's \$140,599,000 in TDRs were classified as performing. Each request for modification is individually evaluated for merit and likelihood of success. The concession granted in a loan modification is typically a payment reduction through a rate reduction of between 100 to 200 basis points for a specific term, usually six to twenty four months. Interest-only payments may also be approved during the modification period. Principal forgiveness is not an available option for restructured loans. As of March 31, 2019, single-family residential loans comprised 89.8% of TDRs.

The Company reserves for restructured loans within its allowance for loan loss methodology by taking into account the following performance indicators: 1) time since modification, 2) current payment status and 3) geographic area.

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE E – Allowance for Losses on Loans

The following tables summarize the activity in the allowance for loan losses.

| Three Months Ended March 31, 2019 | Beginning Allowance | Charge-offs | Recoveries | Provision & Transfers | Ending Allowance |
|-----------------------------------|---------------------|-------------|------------|-----------------------|------------------|
| | (In thousands) | | | | |
| Single-family residential | \$31,484 | \$ (150) | \$ 310 | \$ (168) | \$ 31,476 |
| Construction | 31,463 | — | — | 1,933 | 33,396 |
| Construction - custom | 1,926 | — | — | 50 | 1,976 |
| Land - acquisition & development | 9,156 | — | 1,300 | (722) | 9,734 |
| Land - consumer lot loans | 2,144 | (48) | — | (20) | 2,076 |
| Multi-family | 7,884 | — | — | (490) | 7,394 |
| Commercial real estate | 12,711 | — | 244 | (507) | 12,448 |
| Commercial & industrial | 30,279 | (285) | 24 | 556 | 30,574 |
| HELOC | 1,064 | (200) | 43 | 175 | 1,082 |
| Consumer | 3,054 | (332) | 265 | (57) | 2,930 |
| | \$131,165 | \$ (1,015) | \$ 2,186 | \$ 750 | \$ 133,086 |
| Three Months Ended March 31, 2018 | Beginning Allowance | Charge-offs | Recoveries | Provision & Transfers | Ending Allowance |
| | (In thousands) | | | | |
| Single-family residential | \$35,928 | \$ (290) | \$ 211 | \$ (1,705) | \$ 34,144 |
| Construction | 25,214 | — | — | 2,175 | 27,389 |
| Construction - custom | 2,052 | — | — | 29 | 2,081 |
| Land - acquisition & development | 7,355 | — | 1,207 | (940) | 7,622 |
| Land - consumer lot loans | 2,906 | (18) | — | (35) | 2,853 |
| Multi-family | 7,904 | — | — | 78 | 7,982 |
| Commercial real estate | 11,625 | (36) | 1 | (2) | 11,588 |
| Commercial & industrial | 29,268 | — | 115 | (53) | 29,330 |
| HELOC | 808 | (1) | — | (5) | 802 |
| Consumer | 4,095 | (94) | 276 | (492) | 3,785 |
| | \$127,155 | \$ (439) | \$ 1,810 | \$ (950) | \$ 127,576 |

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

| Six Months Ended March 31, 2019 | Beginning Allowance | Charge-offs | Recoveries | Provision & Transfers | Ending Allowance |
|----------------------------------|---------------------|-------------|------------|-----------------------|------------------|
| | (In thousands) | | | | |
| Single-family residential | \$33,033 | \$ (175) | \$ 539 | \$ (1,921) | \$ 31,476 |
| Construction | 31,317 | — | — | 2,079 | 33,396 |
| Construction - custom | 1,842 | — | — | 134 | 1,976 |
| Land - acquisition & development | 7,978 | — | 3,082 | (1,326) | 9,734 |
| Land - consumer lot loans | 2,164 | (120) | 265 | (233) | 2,076 |
| Multi-family | 8,329 | — | — | (935) | 7,394 |
| Commercial real estate | 11,852 | (339) | 770 | 165 | 12,448 |
| Commercial & industrial | 28,702 | (464) | 58 | 2,278 | 30,574 |
| HELOC | 781 | (1,086) | 44 | 1,343 | 1,082 |
| Consumer | 3,259 | (472) | 477 | (334) | 2,930 |
| | \$129,257 | \$ (2,656) | \$ 5,235 | \$ 1,250 | \$ 133,086 |
| Six Months Ended March 31, 2018 | Beginning Allowance | Charge-offs | Recoveries | Provision & Transfers | Ending Allowance |
| | (In thousands) | | | | |
| Single-family residential | \$36,892 | \$ (750) | \$ 331 | \$ (2,329) | \$ 34,144 |
| Construction | 24,556 | — | — | 2,833 | 27,389 |
| Construction - custom | 1,944 | (50) | — | 187 | 2,081 |
| Land - acquisition & development | 6,829 | — | 4,579 | (3,786) | 7,622 |
| Land - consumer lot loans | 2,649 | (66) | — | 270 | 2,853 |
| Multi-family | 7,862 | — | — | 120 | 7,982 |
| Commercial real estate | 11,818 | (36) | 1 | (195) | 11,588 |
| Commercial & industrial | 28,524 | (116) | 170 | 752 | 29,330 |
| HELOC | 855 | (1) | 1 | (53) | 802 |
| Consumer | 1,144 | (172) | 562 | 2,251 | 3,785 |
| | \$123,073 | \$ (1,191) | \$ 5,644 | \$ 50 | \$ 127,576 |

The Company recorded a provision for loan losses of \$750,000 for the three months ended March 31, 2019, compared to a \$950,000 release of allowance for loan losses for the three months ended March 31, 2018. A provision for loan losses of \$250,000 and a release of allowance for loan losses of \$950,000 was recorded for the six months ended March 31, 2019 and March 31, 2018, respectively. Reserving for new loan originations as the loan portfolio grows has been largely offset by recoveries of previously charged-off loans. Recoveries, net of charge-offs, totaled \$1,171,000 for the three months ended March 31, 2019, compared to net recoveries of \$1,371,000 during the three months ended March 31, 2018. Recoveries, net of charge-offs, totaled \$2,579,000 for the six months ended March 31, 2019, compared to net recoveries of \$4,453,000 during the six months ended March 31, 2018.

Non-performing assets were \$59,572,000, or 0.36% of total assets, at March 31, 2019, compared to \$70,093,000, or 0.44% of total assets, at September 30, 2018. Non-accrual loans were \$48,941,000 at March 31, 2019, compared to \$55,686,000 at September 30, 2018. Delinquencies, as a percent of total loans, were 0.40% at March 31, 2019, compared to 0.42% at September 30, 2018.

The reserve for unfunded commitments was \$6,250,000 as of March 31, 2019, which is a decrease from \$7,250,000 at September 30, 2018.

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Management believes the allowance for loan losses plus the reserve for unfunded commitments, totaling \$139,336,000, or 1.05% of gross loans as of March 31, 2019, is sufficient to absorb estimated losses inherent in the portfolio of loans and unfunded commitments.

The following tables show loans collectively and individually evaluated for impairment and the related allocation of general and specific reserves.

| March 31, 2019 | Loans Collectively Evaluated for Impairment | | | Loans Individually Evaluated for Impairment | | | |
|----------------------------------|---|------------------------------|-------|---|------------------------------|-------|---|
| | Allowance Allocation | Recorded Investment of Loans | Ratio | Allowance Allocation | Recorded Investment of Loans | Ratio | |
| | (In thousands, except ratio data) | | | (In thousands, except ratio data) | | | |
| Single-family residential | \$ 31,476 | \$ 5,848,663 | 0.5 % | \$ — | \$ 16,836 | — | % |
| Construction | 33,396 | 1,138,688 | 2.9 | — | 1,282 | — | |
| Construction - custom | 1,976 | 307,405 | 0.6 | — | — | — | |
| Land - acquisition & development | 9,727 | 152,304 | 6.4 | 7 | 242 | 2.9 | |
| Land - consumer lot loans | 2,076 | 92,614 | 2.2 | — | 309 | — | |
| Multi-family | 7,390 | 1,422,864 | 0.5 | 4 | 837 | 0.5 | |
| Commercial real estate | 12,328 | 1,552,990 | 0.8 | 120 | 17,512 | 0.7 | |
| Commercial & industrial | 30,329 | 1,219,921 | 2.5 | 245 | 12,651 | 1.9 | |
| HELOC | 1,082 | 137,716 | 0.8 | — | 528 | — | |
| Consumer | 2,930 | 154,201 | 1.9 | — | 52 | — | |
| | \$ 132,710 | \$ 12,027,366 | 1.1 % | \$ 376 | \$ 50,249 | 0.7 % | |
| | | | | | | | |
| September 30, 2018 | Loans Collectively Evaluated for Impairment | | | Loans Individually Evaluated for Impairment | | | |
| | Allowance Allocation | Recorded Investment of Loans | Ratio | Allowance Allocation | Recorded Investment of Loans | Ratio | |
| | (In thousands, except ratio data) | | | (In thousands, except ratio data) | | | |
| Single-family residential | \$ 33,033 | \$ 5,782,870 | 0.6 % | \$ — | \$ 21,345 | — | % |
| Construction | 31,317 | 1,060,428 | 3.0 | — | 2,427 | — | |
| Construction - custom | 1,842 | 289,192 | 0.6 | — | — | — | |
| Land - acquisition & development | 7,969 | 122,639 | 6.5 | 9 | 920 | 1.0 | |
| Land - consumer lot loans | 2,164 | 96,583 | 2.2 | — | 507 | — | |
| Multi-family | 8,325 | 1,384,655 | 0.6 | 4 | 448 | 1.0 | |
| Commercial real estate | 11,702 | 1,432,791 | 0.8 | 150 | 19,378 | 0.8 | |
| Commercial & industrial | 28,348 | 1,126,438 | 2.5 | 354 | 14,437 | 2.5 | |
| HELOC | 781 | 128,715 | 0.6 | — | 1,162 | — | |
| Consumer | 3,259 | 173,181 | 1.9 | — | 56 | — | |
| | \$ 128,740 | \$ 11,597,492 | 1.1 % | \$ 517 | \$ 60,680 | 0.9 % | |

As of March 31, 2019, \$132,710,000 of the allowance was calculated under the Company's general allowance methodology and the remaining \$376,000 was specific reserves on loans deemed to be individually impaired. As of

September 30, 2018, \$128,740,000 of the allowance was calculated under the Company's general allowance methodology and the remaining \$517,000 was specific reserves on loans deemed to be individually impaired.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The Company has an asset quality review function that analyzes its loan portfolio and reports the results of the review to its Board of Directors on a quarterly basis. The single-family residential, HELOC and consumer portfolios are evaluated based on their performance as a pool of loans, since no single loan is individually significant or judged by its risk rating, size or potential risk of loss. The construction, land, multi-family, commercial real estate and commercial and industrial loans are risk rated on a loan by loan basis to determine the relative risk inherent in specific borrowers or loans. Based on that risk rating, the loans are assigned a grade and classified as follows:

Pass – the credit does not meet one of the definitions below.

Special mention – A special mention credit is considered to be currently protected from loss but is potentially weak. No loss of principal or interest is foreseen; however, proper supervision and management attention is required to deter further deterioration in the credit. Assets in this category constitute some undue and unwarranted credit risk but not to the point of justifying a risk rating of substandard. The credit risk may be relatively minor yet constitutes an unwarranted risk in light of the circumstances surrounding a specific asset.

Substandard – A substandard credit is an unacceptable credit. Additionally, repayment in the normal course is in jeopardy due to the existence of one or more well defined weaknesses. In these situations, loss of principal is likely if the weakness is not corrected. A substandard asset is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified will have a well-defined weakness or weaknesses that jeopardize the collection or liquidation of the debt. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets risk rated substandard.

Doubtful – A credit classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weakness makes collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The probability of loss is high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

Loss – Credits classified loss are considered uncollectible and of such little value that their continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this asset even though partial recovery may be affected in the future. Losses should be taken in the period in which they are identified as uncollectible. Partial charge-off versus full charge-off may be taken if the collateral offers some identifiable protection.

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following tables provide information on loans based on risk rating categories as defined above.

| March 31, 2019 | Internally Assigned Grade | | | | | Total Gross Loans |
|----------------------------------|-----------------------------------|-----------------|-------------|----------|------|----------------------|
| | Pass | Special mention | Substandard | Doubtful | Loss | |
| | (In thousands, except ratio data) | | | | | |
| Loan type | | | | | | |
| Single-family residential | \$5,831,775 | \$ — | \$29,629 | \$ — | \$ — | \$5,861,404 |
| Construction | 1,978,992 | — | 1,282 | — | — | 1,980,274 |
| Construction - custom | 586,515 | — | — | — | — | 586,515 |
| Land - acquisition & development | 190,807 | 2,424 | 1,508 | — | — | 194,739 |
| Land - consumer lot loans | 96,573 | — | 579 | — | — | 97,152 |
| Multi-family | 1,415,872 | — | 7,851 | — | — | 1,423,723 |
| Commercial real estate | 1,529,461 | 7,599 | 33,442 | — | — | 1,570,502 |
| Commercial & industrial | 1,195,835 | 4,238 | 30,815 | — | — | 1,230,888 |
| HELOC | 138,391 | — | 812 | — | — | 139,203 |
| Consumer | 155,978 | — | 24 | — | — | 156,002 |
| Total gross loans | \$13,120,199 | \$ 14,261 | \$105,942 | \$ — | \$ — | \$13,240,402 |

| | | | | | |
|---|------|-------|-------|-----|------|
| Total grade as a % of total gross loans | 99.1 | % 0.1 | % 0.8 | % — | % —% |
|---|------|-------|-------|-----|------|

| September 30, 2018 | Internally Assigned Grade | | | | | Total Gross Loans |
|----------------------------------|-----------------------------------|-----------------|-------------|----------|------|----------------------|
| | Pass | Special mention | Substandard | Doubtful | Loss | |
| | (In thousands, except ratio data) | | | | | |
| Loan type | | | | | | |
| Single-family residential | \$5,766,096 | \$ — | \$32,870 | \$ — | \$ — | \$5,798,966 |
| Construction | 1,886,304 | 1,937 | 2,427 | — | — | 1,890,668 |
| Construction - custom | 624,479 | — | — | — | — | 624,479 |
| Land - acquisition & development | 152,984 | — | 2,220 | — | — | 155,204 |
| Land - consumer lot loans | 101,249 | — | 787 | — | — | 102,036 |
| Multi-family | 1,378,803 | 1,633 | 4,689 | — | — | 1,385,125 |
| Commercial real estate | 1,421,602 | 7,114 | 23,452 | — | — | 1,452,168 |
| Commercial & industrial | 1,093,405 | 16,513 | 30,956 | — | — | 1,140,874 |
| HELOC | 130,330 | — | 522 | — | — | 130,852 |
| Consumer | 173,285 | — | 21 | — | — | 173,306 |
| Total gross loans | \$12,728,537 | \$ 27,197 | \$97,944 | \$ — | \$ — | \$12,853,678 |

| | | | | | |
|---|------|-------|-------|-----|------|
| Total grade as a % of total gross loans | 99.0 | % 0.2 | % 0.8 | % — | % —% |
|---|------|-------|-------|-----|------|

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following tables provide information on gross loans based on borrower payment activity.

| March 31, 2019 | Performing Loans | | Non-Performing Loans | |
|----------------------------------|-----------------------------------|------------------------------|----------------------|------------------------------|
| | Amount | % of Total Gross Loans | Amount | % of Total Gross Loans |
| | (In thousands, except ratio data) | | | |
| Single-family residential | \$5,836,930 | 99.6 % | \$ 24,474 | 0.4 % |
| Construction | 1,978,992 | 99.9 | 1,282 | 0.1 |
| Construction - custom | 586,515 | 100.0 | — | — |
| Land - acquisition & development | 194,497 | 99.9 | 242 | 0.1 |
| Land - consumer lot loans | 96,573 | 99.4 | 579 | 0.6 |
| Multi-family | 1,423,723 | 100.0 | — | — |
| Commercial real estate | 1,561,340 | 99.4 | 9,162 | 0.6 |
| Commercial & industrial | 1,218,522 | 99.0 | 12,366 | 1.0 |
| HELOC | 138,391 | 99.4 | 812 | 0.6 |
| Consumer | 155,978 | 100.0 | 24 | — |
| | \$13,191,461 | 99.6 % | \$ 48,941 | 0.4 % |
| September 30, 2018 | Performing Loans | | Non-Performing Loans | |
| | Amount | % of Total Gross Loans | Amount | % of Total Gross Loans |
| | (In thousands, except ratio data) | | | |
| Single-family residential | \$5,771,323 | 99.5 % | \$ 27,643 | 0.5 % |
| Construction | 1,888,241 | 99.9 | 2,427 | 0.1 |
| Construction - custom | 624,479 | 100.0 | — | — |
| Land - acquisition & development | 154,284 | 99.4 | 920 | 0.6 |
| Land - consumer lot loans | 101,249 | 99.2 | 787 | 0.8 |
| Multi-family | 1,385,125 | 100.0 | — | — |
| Commercial real estate | 1,443,197 | 99.4 | 8,971 | 0.6 |
| Commercial & industrial | 1,126,480 | 98.7 | 14,394 | 1.3 |
| HELOC | 130,329 | 99.6 | 523 | 0.4 |
| Consumer | 173,285 | 100.0 | 21 | — |
| | \$12,797,992 | 99.6 % | \$ 55,686 | 0.4 % |

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following tables provide information on impaired loan balances and the related allowances by loan types.

| March 31, 2019 | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment (Year-To-Date) |
|--|---------------------|--------------------------|-------------------|--|
| (In thousands) | | | | |
| Impaired loans with no related allowance recorded: | | | | |
| Single-family residential | \$16,089 | \$16,964 | \$ — | \$ 16,800 |
| Construction | 1,532 | 1,750 | — | 1,953 |
| Land - acquisition & development | 143 | 143 | — | 431 |
| Land - consumer lot loans | 135 | 165 | — | 209 |
| Commercial real estate | 8,757 | 13,482 | — | 9,376 |
| Commercial & industrial | 9,006 | 9,321 | — | 9,670 |
| HELOC | 528 | 528 | — | 486 |
| Consumer | 22 | 88 | — | 22 |
| | 36,212 | 42,441 | — | 38,947 |
| Impaired loans with an allowance recorded: | | | | |
| Single-family residential | 126,265 | 129,043 | 2,202 | 133,290 |
| Land - acquisition & development | 99 | 154 | — | 103 |
| Land - consumer lot loans | 4,489 | 4,946 | 7 | 4,669 |
| Multi-family | 419 | 419 | 4 | 434 |
| Commercial real estate | 4,942 | 6,051 | 120 | 5,583 |
| Commercial & industrial | 3,360 | 6,830 | 245 | 3,937 |
| HELOC | 960 | 972 | — | 968 |
| Consumer | 65 | 65 | — | 67 |
| | 140,599 | 148,480 | 2,578 | (1) 149,051 |
| Total impaired loans: | | | | |
| Single-family residential | 142,354 | 146,007 | 2,202 | 150,090 |
| Construction | 1,532 | 1,750 | — | 1,953 |
| Land - acquisition & development | 242 | 297 | — | 534 |
| Land - consumer lot loans | 4,624 | 5,111 | 7 | 4,878 |
| Multi-family | 419 | 419 | 4 | 434 |
| Commercial real estate | 13,699 | 19,533 | 120 | 14,959 |
| Commercial & industrial | 12,366 | 16,151 | 245 | 13,607 |
| HELOC | 1,488 | 1,500 | — | 1,454 |
| Consumer | 87 | 153 | — | 89 |
| | \$176,811 | \$190,921 | \$ 2,578 | (1) \$ 187,998 |

(1) Includes \$376,000 of specific reserves and \$2,202,000 included in the general reserves.

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

| September 30, 2018 | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment (Year-To-Date) |
|--|------------------------|--------------------------------|----------------------|---|
| | (In thousands) | | | |
| Impaired loans with no related allowance recorded: | | | | |
| Single-family residential | \$18,872 | \$20,050 | \$ — | \$ 20,097 |
| Construction | 2,698 | 2,818 | — | 1,349 |
| Construction - custom | — | — | — | 74 |
| Land - acquisition & development | 814 | 814 | — | 572 |
| Land - consumer lot loans | 311 | 336 | — | 260 |
| Multi-family | — | — | — | 70 |
| Commercial real estate | 9,425 | 14,035 | — | 11,158 |
| Commercial & industrial | 10,137 | 10,146 | — | 9,208 |
| HELOC | 410 | 1,170 | — | 450 |
| Consumer | 20 | 56 | — | 54 |
| | 42,687 | 49,425 | — | 43,292 |
| Impaired loans with an allowance recorded: | | | | |
| Single-family residential | 139,796 | 143,099 | 2,871 | 161,729 |
| Land - acquisition & development | 107 | 157 | — | 39 |
| Land - consumer lot loans | 4,916 | 5,290 | 9 | 6,449 |
| Multi-family | 448 | 448 | 4 | 471 |
| Commercial real estate | 6,254 | 7,733 | 150 | 10,445 |
| Commercial & industrial | 4,291 | 7,506 | 354 | 4,495 |
| HELOC | 976 | 984 | — | 1,395 |
| Consumer | 70 | 70 | — | 83 |
| | 156,858 | 165,287 | 3,388 | (1) 185,106 |
| Total impaired loans: | | | | |
| Single-family residential | 158,668 | 163,149 | 2,871 | 181,826 |
| Construction | 2,698 | 2,818 | — | 1,349 |
| Construction - custom | — | — | — | 74 |
| Land - acquisition & development | 921 | 971 | — | 611 |
| Land - consumer lot loans | 5,227 | 5,626 | 9 | 6,709 |
| Multi-family | 448 | 448 | 4 | 541 |
| Commercial real estate | 15,679 | 21,768 | 150 | 21,603 |
| Commercial & industrial | 14,428 | 17,652 | 354 | 13,703 |
| HELOC | 1,386 | 2,154 | — | 1,845 |
| Consumer | 90 | 126 | — | 137 |
| | \$199,545 | \$214,712 | \$ 3,388 | (1) \$ 228,398 |

(1) Includes \$517,000 of specific reserves and \$2,871,000 included in the general reserves.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE F – Fair Value Measurements

FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active exchange markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company has established and documented the process for determining the fair values of its assets and liabilities, where applicable. Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, fair value is determined using valuation models or third-party appraisals. The following is a description of the valuation methodologies used to measure and report the fair value of financial assets and liabilities on a recurring or nonrecurring basis.

Measured on a Recurring Basis

Available-for-Sale Securities and Derivative Contracts

Securities available for sale are recorded at fair value on a recurring basis. The fair value of debt securities are priced using model pricing based on the securities' relationship to other benchmark quoted prices as provided by an independent third party, and under GAAP are considered a Level 2 input method. Securities that are traded on active exchanges, including the Company's equity securities, are measured using the closing price in an active market and are considered a Level 1 input method.

The Company offers interest rate swaps to its variable rate borrowers who want to manage their interest rate risk. At the same time, the Company enters into the opposite trade with a counter party to offset its interest rate risk. The Company has also entered into commercial loan hedges as well as borrowings hedges using interest rate swaps. The fair value of these interest rate swaps are estimated by a third party pricing service using a discounted cash flow technique. These are considered a Level 2 input method.

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following tables present the balance of assets and liabilities measured at fair value on a recurring basis.

| | March 31, 2019 | | |
|---------------------------------------|----------------|-------------|---------------|
| | Level 1 | Level 2 | Level 3 Total |
| | (In thousands) | | |
| Financial Assets | | | |
| Available-for-sale securities: | | | |
| U.S. government and agency securities | \$— | \$235,280 | \$— |
| Municipal bonds | — | 22,408 | — |
| Corporate debt securities | — | 257,981 | — |
| Mortgage-backed securities | | | |
| Agency pass-through certificates | — | 1,029,937 | — |
| Total available-for-sale securities | — | 1,545,606 | — |
| Interest rate contracts | — | 2,822 | — |
| Borrowings hedges | — | 5,600 | — |
| Total financial assets | \$— | \$1,554,028 | \$— |

| | | | |
|------------------------------|-----|---------|-----|
| Financial Liabilities | | | |
| Interest rate contracts | \$— | \$2,822 | \$— |
| Commercial loan hedges | — | 94 | — |
| Total financial liabilities | \$— | \$2,916 | \$— |

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the six months ended March 31, 2019.

| | September 30, 2018 | | |
|---------------------------------------|--------------------|-------------|---------------|
| | Level 1 | Level 2 | Level 3 Total |
| | (In thousands) | | |
| Financial Assets | | | |
| Available-for-sale securities: | | | |
| Equity securities | \$488 | \$— | \$— |
| U.S. government and agency securities | — | 207,293 | — |
| Municipal bonds | — | 22,978 | — |
| Corporate debt securities | — | 184,695 | — |
| Mortgage-backed securities | | | |
| Agency pass-through certificates | — | 896,041 | — |
| Commercial MBS | — | 3,462 | — |
| Total available-for-sale securities | 488 | 1,314,469 | — |
| Interest rate contracts | — | 12,731 | — |
| Commercial loan hedges | — | 3,857 | — |
| Borrowings hedges | — | 22,250 | — |
| Total financial assets | \$488 | \$1,353,307 | \$— |

| | | | |
|------------------------------|-----|----------|-----|
| Financial Liabilities | | | |
| Interest rate contracts | \$— | \$12,731 | \$— |
| Total financial liabilities | \$— | \$12,731 | \$— |

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the fiscal year ended September 30, 2018.

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Measured on a Nonrecurring Basis

Impaired Loans & Real Estate Owned

Real estate owned ("REO") consists principally of properties acquired through foreclosure. From time to time, and on a nonrecurring basis, adjustments using fair value measurements are recorded to reflect increases or decreases based on the discounted cash flows, the current appraisal or estimated value of the collateral, but only up to the fair value of the real estate owned as of the initial transfer date less selling costs.

When management determines that the fair value of the collateral or the real estate owned requires additional adjustments, either as a result of an updated appraised value or when there is no observable market price, the Company classifies the impaired loan or real estate owned as Level 3. Level 3 assets recorded at fair value on a nonrecurring basis at March 31, 2019 included loans for which a specific reserve allowance was established or a partial charge-off was recorded based on the fair value of collateral, as well as real estate owned where the fair value of the property was less than the cost basis.

The following tables present the aggregated balance of assets that were measured at fair value on a nonrecurring basis at March 31, 2019 and March 31, 2018, and the total gains (losses) resulting from those fair value adjustments for the three and six months ended March 31, 2019 and March 31, 2018. The estimated fair value measurements are shown gross of estimated selling costs.

| | March 31, 2019 | | | Three Months Ended March 31, 2019 | Six Months Ended March 31, 2019 |
|--------------------------|----------------|----------|---------|--|---|
| | Level 1 | Level 2 | Level 3 | Total | Total Gains (Losses) |
| | (In thousands) | | | (In thousands) | |
| Impaired loans (1) | \$— | —\$3,316 | \$3,316 | \$(511) | \$(1,237) |
| Real estate owned (2) | — | 2,550 | 2,550 | 431 | 399 |
| Balance at end of period | \$— | —\$5,866 | \$5,866 | \$(80) | \$(838) |

(1) The gains (losses) represent remeasurements of collateral-dependent loans.

(2) The gains (losses) represent remeasurements of REO.

| | March 31, 2018 | | | Three Months Ended March 31, 2018 | Six Months Ended March 31, 2018 |
|--|----------------|---------|---------|--|---|
| | Level 1 | Level 2 | Level 3 | Total | Total Gains (Losses) |

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| | (In thousands) | | (In thousands) | |
|--------------------------|----------------|-----------|----------------|-------------------|
| Impaired loans (1) | \$— | —\$7,343 | \$7,343 | \$(466) \$(973) |
| Real estate owned (2) | — | 5,520 | 5,520 | (379) (559) |
| Balance at end of period | \$— | —\$12,863 | \$12,863 | \$(845) \$(1,532) |

(1) The gains (losses) represent remeasurements of collateral-dependent loans.

(2) The gains (losses) represent remeasurements of REO.

Impaired loans - The Company adjusts the carrying amount of impaired loans when there is evidence of probable loss and the expected fair value of the loan is less than its contractual amount. The amount of the impairment may be determined based on the estimated present value of future cash flows or the fair value of the underlying collateral. Impaired loans with a specific reserve allowance based on cash flow analysis or the value of the underlying collateral are classified as Level 3 assets.

The evaluations for impairment are prepared by the Company's Problem Loan Review Committee, which is chaired by the Chief Credit Officer and includes the Loan Review manager and Special Credits manager, as well as senior credit officers, division managers and group executives, as applicable. These evaluations are performed in conjunction with the quarterly allowance for loan loss process.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Applicable loans included in the previous quarter's review are reevaluated and if their values are materially different from the prior quarter evaluation, the underlying information (loan balance and collateral value) are compared.

Material differences are evaluated for reasonableness and discussions are held between the relationship manager and their division manager to understand the difference and determine if any adjustment is necessary.

The inputs are developed and substantiated on a quarterly basis, based on current borrower developments, market conditions and collateral values. The following methods are used to value impaired loans:

The fair value of the collateral, which may take the form of real estate or personal property, is based on internal estimates, field observations, assessments provided by third-party appraisers and other valuation models. The Company performs or reaffirms valuations of collateral-dependent impaired loans at least annually. Adjustments are made if management believes that more recent information is available and relevant with respect to the fair value of the collateral.

The present value of the expected future cash flows of the loans is used for measurement of non-collateral-dependent loans to test for impairment.

Real estate owned - When a loan is reclassified from loan status to real estate owned due to the Company taking possession of the collateral, a special credits officer, along with the special credits manager, obtains a valuation, which may include appraisals or third-party price opinions, which is used to establish the fair value of the underlying collateral. The determined fair value, less selling costs, becomes the carrying value of the REO asset.

The fair value of REO assets is re-evaluated quarterly and the REO asset is adjusted to reflect the fair value as necessary. After foreclosure, the valuations are updated periodically and current market conditions may require the assets to be written down further or up to the cost basis established on the date of transfer. The carrying balance of REO assets are also written down once a bona fide offer is contractually accepted, through execution of a purchase and sale agreement, where the accepted price is lower than the cost established on the transfer date.

Fair Values of Financial Instruments

FASB ASC 825 requires disclosure of fair value information about financial instruments, whether or not recognized on the statement of financial condition, for which it is practicable to estimate those values. Certain financial instruments and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value estimates presented do not reflect the underlying fair value of the Company. Although management is not aware of any factors that would materially affect the estimated fair value amounts presented below, such amounts have not been comprehensively revalued for purposes of these financial statements since the dates shown, and therefore, estimates of fair value subsequent to those dates may differ significantly from the amounts presented below.

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

| | Level in Fair Value Hierarchy | March 31, 2019 | | September 30, 2018 | |
|---|-------------------------------|-----------------|----------------------|--------------------|----------------------|
| | | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| (\$ in thousands) | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 1 | \$ 279,554 | \$ 279,554 | \$ 268,650 | \$ 268,650 |
| Available-for-sale securities | | | | | |
| Equity securities | 1 | — | — | 488 | 488 |
| U.S. government and agency securities | 2 | 235,280 | 235,280 | 207,293 | 207,293 |
| Municipal bonds | 2 | 22,408 | 22,408 | 22,978 | 22,978 |
| Corporate debt securities | 2 | 257,981 | 257,981 | 184,695 | 184,695 |
| Mortgage-backed securities | | | | | |
| Agency pass-through certificates | 2 | 1,029,937 | 1,029,937 | 896,041 | 896,041 |
| Commercial MBS | 2 | — | — | 3,462 | 3,462 |
| Total available-for-sale securities | | 1,545,606 | 1,545,606 | 1,314,957 | 1,314,957 |
| Held-to-maturity securities | | | | | |
| Mortgage-backed securities | | | | | |
| Agency pass-through certificates | 2 | 1,538,683 | 1,520,608 | 1,610,420 | 1,533,742 |
| Commercial MBS | 2 | 15,000 | 14,944 | 15,000 | 15,028 |
| Total held-to-maturity securities | | 1,553,683 | 1,535,552 | 1,625,420 | 1,548,770 |
| Loans receivable | | | | | |
| FHLB and FRB stock | 2 | 11,894,836 | 12,234,924 | 11,477,081 | 11,556,326 |
| Other assets - interest rate contracts | 2 | 138,390 | 138,390 | 127,190 | 127,190 |
| Other assets - commercial loan hedges | 2 | 2,822 | 2,822 | 12,731 | 12,731 |
| Other assets - borrowings hedges | 2 | — | — | 3,857 | 3,857 |
| Other assets - commercial loan hedges | 2 | 5,600 | 5,600 | 22,250 | 22,250 |
| Financial liabilities | | | | | |
| Time deposit accounts | 2 | 4,939,365 | 4,942,666 | 4,804,803 | 4,779,040 |
| FHLB advances | 2 | 2,610,000 | 2,590,365 | 2,330,000 | 2,316,964 |
| Other liabilities - interest rate contracts | 2 | 2,822 | 2,822 | 12,731 | 12,731 |
| Other liabilities - commercial loan hedges | 2 | 94 | 94 | — | — |

The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash and cash equivalents – The carrying amount of these items is a reasonable estimate of their fair value.

Available-for-sale securities and held-to-maturity securities – Securities at fair value are primarily priced using model pricing based on the securities' relationship to other benchmark quoted prices as provided by an independent third party, and are considered a Level 2 input method. Equity securities that are exchange traded are considered a Level 1 input method.

Loans receivable – Fair values are estimated first by stratifying the portfolios of loans with similar financial characteristics. Loans are segregated by type such as multi-family real estate, residential mortgage, construction, commercial, consumer and land loans. Each loan category is further segmented into fixed- and adjustable-rate interest terms. For residential mortgages and multi-family loans, the bank determined that its best exit price was by securitization. MBS benchmark prices are used as a base price, with further loan level pricing adjustments made based

on individual loan characteristics such as Fico score, LTV, Property Type and occupancy. For all other loan categories an estimate of fair value is then calculated based on discounted cash flows using a discount rate offered and observed in the market on similar products, plus an adjustment for liquidity to reflect the non-homogeneous nature of the loans, as well as, a annual loss rate based on historical losses to arrive at an estimated exit price fair value. Fair value for impaired loans is also based on recent appraisals or estimated cash flows discounted using rates commensurate with risk associated

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

with the estimated cash flows. Assumptions regarding credit risk, cash flows and discount rates are judgmentally determined using available market information and specific borrower information.

FHLB and FRB stock – The fair value is based upon the par value of the stock that equates to its carrying value.

Time deposit accounts – The fair value of certificates of deposit is estimated by discounting the estimated future cash flows using rates offered for deposits with similar remaining maturities.

FHLB advances – The fair value of FHLB advances and other borrowings is estimated by discounting the estimated future cash flows using rates currently available to the Company for debt with similar remaining maturities.

Interest rate contracts – The Company offers interest rate swaps to its variable rate borrowers who want to manage their interest rate risk. At the same time, the Company enters into the opposite trade with a counterparty to offset its interest rate risk. The fair value of these interest rate swaps is estimated by a third party pricing service using a discounted cash flow technique.

Commercial loan hedges – The fair value of the interest rate swaps is estimated by a third party pricing service using a discounted cash flow technique.

Borrowings hedges – The fair value of the interest rate swaps is estimated by a third party pricing service using a discounted cash flow technique.

The following tables provide a reconciliation of amortized cost to fair value of available-for-sale and held-to-maturity securities.

| | March 31, 2019 | | | | |
|---|-------------------|----------------|----------------------|---------------|-------|
| | Amortized Cost | Gross Gains | Unrealized Losses | Fair Value | Yield |
| | (\$ in thousands) | | | | |
| Available-for-sale securities | | | | | |
| U.S. government and agency securities due | | | | | |
| 5 to 10 years | \$70,806 | \$2 | \$(1,182) | \$69,626 | 2.75% |
| Over 10 years | 166,674 | 38 | (1,058) | 165,654 | 3.55 |
| Corporate debt securities due | | | | | |
| 1 to 5 years | 113,832 | 1,402 | (263) | 114,971 | 3.92 |
| 5 to 10 years | 142,776 | 808 | (574) | 143,010 | 3.49 |
| Municipal bonds due | | | | | |
| 1 to 5 years | 1,414 | 12 | — | 1,426 | 1.92 |
| Over 10 years | 20,313 | 669 | — | 20,982 | 6.45 |
| Mortgage-backed securities | | | | | |
| Agency pass-through certificates | 1,024,213 | 10,337 | (4,613) | 1,029,937 | 3.36 |
| | 1,540,028 | 13,268 | (7,690) | 1,545,606 | 3.44 |
| Held-to-maturity securities | | | | | |
| Mortgage-backed securities | | | | | |
| Agency pass-through certificates | 1,538,683 | 3,599 | (21,674) | 1,520,608 | 3.16 |
| Commercial MBS | 15,000 | — | (56) | 14,944 | 3.35 |
| | 1,553,683 | 3,599 | (21,730) | 1,535,552 | 3.16 |
| | \$3,093,711 | \$16,867 | \$(29,420) | \$3,081,158 | 3.30% |

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

| | September 30, 2018 | | | Fair | Yield |
|---|--------------------|---------|------------|-------------|--------|
| | Amortized | Gross | Unrealized | Value | |
| | Cost | Gains | Losses | | |
| | (\$ in thousands) | | | | |
| Available-for-sale securities | | | | | |
| U.S. government and agency securities due | | | | | |
| 5 to 10 years | \$60,872 | \$— | \$(1,473) | \$59,399 | 2.55 % |
| Over 10 years | 148,099 | 109 | (314) | 147,894 | 3.05 |
| Equity securities | | | | | |
| 1 to 5 years | 500 | — | (12) | 488 | 1.80 |
| Corporate bonds due | | | | | |
| 1 to 5 years | 113,762 | 1,875 | (13) | 115,624 | 3.59 |
| 5 to 10 years | 69,965 | 35 | (929) | 69,071 | 3.23 |
| Municipal bonds due | | | | | |
| 1 to 5 years | 1,398 | — | (24) | 1,374 | 2.05 |
| Over 10 years | 20,323 | 1,281 | — | 21,604 | 6.45 |
| Mortgage-backed securities | | | | | |
| Agency pass-through certificates | 908,092 | 1,383 | (13,434) | 896,041 | 3.29 |
| Commercial MBS | 3,460 | 2 | — | 3,462 | 4.36 |
| | 1,326,471 | 4,685 | (16,199) | 1,314,957 | 3.30 |
| Held-to-maturity securities | | | | | |
| Mortgage-backed securities | | | | | |
| Agency pass-through certificates | 1,610,420 | 305 | (76,983) | 1,533,742 | 3.16 |
| Other Commercial MBS | 15,000 | 28 | — | 15,028 | 3.03 |
| | 1,625,420 | 333 | (76,983) | 1,548,770 | 3.16 |
| | \$2,951,891 | \$5,018 | \$(93,182) | \$2,863,727 | 3.22 % |

For available-for-sale investment securities, there were sales totaling \$491,000 during the six months ended March 31, 2019 and no sales during the six months ended March 31, 2018. There were purchases of \$290,574,000 of available-for-sale investment securities during the six months ended March 31, 2019 and purchases of \$123,324,000 during the six months ended March 31, 2018. For held-to-maturity investment securities, there were no purchases during the six months ended March 31, 2019 and purchases of \$170,836,000 during the six months ended March 31, 2018. There were no sales of held-to-maturity investment securities during either period. Substantially all of the agency mortgage-backed securities have contractual due dates that exceed 10 years.

The following tables show the unrealized gross losses and fair value of securities as of March 31, 2019 and September 30, 2018, by length of time that individual securities in each category have been in a continuous loss position. The decline in fair value since purchase is attributable to changes in interest rates. Because the Company does not intend to sell these securities and does not consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other than temporarily impaired.

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

| March 31, 2019 | Less than 12 months | | 12 months or more | | Total | |
|---------------------------------------|-------------------------------|---------------|-------------------------------|---------------|-------------------------------|---------------|
| | Unrealized Gross Losses | Fair Value | Unrealized Gross Losses | Fair Value | Unrealized Gross Losses | Fair Value |
| | (In thousands) | | | | | |
| Corporate debt securities | \$(574) | \$49,521 | \$(263) | \$49,737 | \$(837) | 99,258 |
| U.S. government and agency securities | (621) | 84,101 | (1,619) | 129,356 | (2,240) | 213,457 |
| Mortgage-backed securities | (418) | 160,772 | (25,925) | 1,621,708 | (26,343) | 1,782,480 |
| | \$(1,613) | \$294,394 | \$(27,807) | \$1,800,801 | \$(29,420) | \$2,095,195 |
| | | | | | | |
| September 30, 2018 | Less than 12 months | | 12 months or more | | Total | |
| | Unrealized Gross Losses | Fair Value | Unrealized Gross Losses | Fair Value | Unrealized Gross Losses | Fair Value |
| | (In thousands) | | | | | |
| Corporate debt securities | \$(929) | \$49,072 | \$(14) | \$24,988 | \$(943) | \$74,060 |
| Municipal bonds due | (24) | 1,374 | — | — | (24) | 1,374 |
| U.S. government and agency securities | (141) | 37,565 | (1,645) | 76,499 | (1,786) | 114,064 |
| Equity securities | (12) | 488 | — | — | (12) | 488 |
| Mortgage-backed securities | (28,748) | 1,035,754 | (61,669) | 1,183,017 | (90,417) | 2,218,771 |
| | \$(29,854) | \$1,124,253 | \$(63,328) | \$1,284,504 | \$(93,182) | \$2,408,757 |

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE G – Derivatives and Hedging Activities

On October 1, 2018, the Company early adopted ASU 2017-12, Targeted Improvements to Accounting for Hedge Activities. This standard primarily impacts the accounting for derivatives designated as fair value and cash flow accounting hedges.

The following tables present the fair value, notional amount and balance sheet classification of derivative assets and liabilities at March 31, 2019 and September 30, 2018:

| March 31, 2019 | Derivatives Assets | | | Derivative Liabilities | | |
|-----------------------------------|--|--------------|------------|--|------------|------------|
| | Balance Sheet Location (In thousands) | Notional | Fair Value | Balance Sheet Location (In thousands) | Notional | Fair Value |
| Client swap program | Other assets | \$ 398,666 | \$ 2,822 | Other liabilities | \$ 398,666 | \$ 2,822 |
| Commercial loan fair value hedges | Other assets | — | — | Other liabilities | 95,645 | 94 |
| Borrowings cash flow hedges | Other assets | 700,000 | 5,600 | Other liabilities | — | — |
| | | \$ 1,098,666 | \$ 8,422 | | \$ 494,311 | \$ 2,916 |
| | | | | | | |
| September 30, 2018 | Derivatives Assets | | | Derivative Liabilities | | |
| | Balance Sheet Location (In thousands) | Notional | Fair Value | Balance Sheet Location (In thousands) | Notional | Fair Value |
| Interest rate contract purpose | | | | | | |
| Client swap program | Other assets | \$ 395,396 | \$ 12,731 | Other liabilities | \$ 395,396 | \$ 12,731 |
| Commercial loan fair value hedges | Other assets | 97,927 | 3,857 | Other liabilities | — | — |
| Borrowings cash flow hedges | Other assets | 700,000 | 22,250 | Other liabilities | — | — |
| | | \$ 1,193,323 | \$ 38,838 | | \$ 395,396 | \$ 12,731 |

The Company enters into interest rate swaps to hedge the interest rate risk of individual fixed rate commercial loans and these relationships qualify as fair value hedges under ASC 815, which provides for offsetting of the recognition of gains and losses of the respective interest rate swap and the hedged item. Gains and losses on the interest rate swaps designated in these hedge relationships, along with the offsetting gains and losses on the hedged items attributable to the hedged risk, are recognized in current earnings within the same income statement line item.

Upon electing to apply ASC 815 fair value hedge accounting, the carrying value of the hedged item is adjusted to reflect the cumulative impact of changes in fair value attributable to the hedged risk. The hedge basis adjustment remains with the hedged item until the hedged item is de-recognized from the balance sheet. The following table presents the impact of fair value hedge accounting on the carrying value of the hedged items (fixed rate commercial loans) at March 31, 2019:

| (In thousands) | March 31, 2019 |
|--|---|
| Balance sheet line item in which hedged item is recorded | Carrying value of gain (loss) hedged fair value |

| | items | hedge adjustment included in carrying amount of hedged items |
|------------------|----------|--|
| Loans receivable | \$95,770 | \$ (94) |
| | \$95,770 | \$ (94) |

The Company has entered into interest rate swaps to convert certain short-term borrowings to fixed rate payments. The primary purpose of these hedges is to mitigate the risk of changes in future cash flows resulting from increasing interest rates. For qualifying cash flow hedges under ASC 815, gains and losses on the interest rate swaps are recorded in accumulated other comprehensive

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

income ("AOCI") and then reclassified into earnings in the same period the hedged cash flows affect earnings and within the same income statement line item as the hedged cash flows. As of March 31, 2019, the maturities for hedges of adjustable rate borrowings ranged from one to seven years, with the weighted average being 3.1 years.

The following table presents the impact of derivative instruments (cash flow hedges on borrowings) on AOCI for the periods presented:

| | |
|--|--|
| (In thousands) | Three Months Ended March 31, 2019 |
| Amount of gain/(loss) recognized in AOCI on derivatives in cash flow hedging relationships | |
| Interest rate contracts: | |
| Pay fixed/receive floating swaps on cash flow hedges of borrowings | \$(6,150) |
| Total pre-tax gain/(loss) recognized in AOCI | \$(6,150) |
| (In thousands) | Six Months Ended March 31, 2019 |
| Amount of gain/(loss) recognized in AOCI on derivatives in cash flow hedging relationships | |
| Interest rate contracts: | |
| Pay fixed/receive floating swaps on cash flow hedges of borrowings | \$(16,650) |
| Total pre-tax gain/(loss) recognized in AOCI | \$(16,650) |

The following table presents the gains/(losses) on derivative instruments in fair value and cash flow accounting hedging relationships under ASC 815 for the period presented:

| | | |
|---|--|--|
| Three Months Ended March 31, 2019 | Interest income on expense loans | Interest on FHLB receivable advances |
| | (In thousands) | |
| Interest income/expense, including the effects of fair value and cash flow hedges | \$141,061 | \$17,846 |
| Gain/(loss) on fair value hedging relationships: | | |
| Interest rate contracts | | |
| Amounts related to interest settlements on derivatives | \$58 | |
| Recognized on derivatives | (1,600 |) |
| Recognized on hedged items | 1,602 | |
| Net income/(expense) recognized on fair value hedges | \$60 | |

Gain/(loss) on cash flow hedging relationships:
Interest rate contracts

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| | |
|--|----------|
| Amounts related to interest settlements on derivatives | \$(854) |
| Amount of derivative gain/(loss) reclassified from AOCI into interest income/expense | — |
| Net income/(expense) recognized on cash flow hedges | \$(854) |

34

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

| Six Months Ended March 31, 2019 | Interest income on expense loans | Interest on FHLB receivable advances |
|--|--|--|
| | (In thousands) | |
| Interest income/expense, including the effects of fair value and cash flow hedges | \$278,126 | \$34,737 |
| Gain/(loss) on fair value hedging relationships: | | |
| Interest rate contracts | | |
| Amounts related to interest settlements on derivatives | \$77 | |
| Recognized on derivatives | (3,917 |) |
| Recognized on hedged items | 3,881 | |
| Net income/(expense) recognized on fair value hedges | \$41 | |
| Gain/(loss) on cash flow hedging relationships: | | |
| Interest rate contracts | | |
| Amounts related to interest settlements on derivatives | | \$(1,404) |
| Amount of derivative gain/(loss) reclassified from AOCI into interest income/expense | | — |
| Net income/(expense) recognized on cash flow hedges | | \$(1,404) |

The Company periodically enters into certain interest rate swap agreements in order to provide commercial loan customers the ability to convert from variable to fixed interest rate payments, while the Company retains a variable rate loan. Under these agreements, the Company enters into a variable rate loan agreement and a swap agreement with the client. The swap agreement effectively converts the client's variable rate loan into a fixed rate. The Company enters into a corresponding swap agreement with a third party in order to offset its exposure on the variable and fixed components of the client's swap agreement. The interest rate swaps are derivatives under FASB ASC 815, Derivatives and Hedging, with changes in fair value recorded in earnings. There was no net impact to the statement of operations for the six months ended March 31, 2019 and 2018 as the changes in fair value of the receive fixed swap and pay fixed swap offset each other.

The following table presents the impact of derivative instruments (client swap program) that are not designated in accounting hedges under ASC 815 for the periods presented:

| (In thousands) | Classification of gain/(loss) recognized in income on derivative instrument | Three Months Ended March 31, 2019 |
|---------------------------------|---|--|
| Derivative instruments | | |
| Interest rate contracts: | | |
| Pay fixed/receive floating swap | Other noninterest income | \$(6,163) |
| Receive fixed/pay floating swap | Other noninterest income | 6,163 |
| | | \$— |

(In thousands)

| Derivative instruments | Classification of gain/(loss) recognized in income on derivative instrument | Six Months Ended March 31, 2019 |
|---------------------------------|---|---|
| Interest rate contracts: | | |
| Pay fixed/receive floating swap | Other noninterest income | \$(15,553) |
| Receive fixed/pay floating swap | Other noninterest income | 15,553 |
| | | \$— |

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE H – Revenue from Contracts with Customers

On October 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers ("ASC 606"). Since net interest income on financial assets and liabilities is excluded from this guidance, a significant majority of our revenues are not subject to the new guidance.

Revenue streams that are within the scope of the new guidance are presented within noninterest income and are, in general, recognized as revenue at the same time the Company's obligation to the customer is satisfied. Most of the Company's customer contracts that are within the scope of the new guidance are cancelable by either party without penalty and are short-term in nature. These sources of revenue include depositor and other consumer and business banking fees, commission income, as well as debit and credit card interchange fees. For the six months ended March 31, 2019, in scope revenue streams represented approximately 5.0% of our total revenues. As this standard is immaterial to our consolidated financial statements, the Company has omitted certain disclosures in ASC 606, including the disaggregation of revenue table. Sources of noninterest income within the scope of the new guidance include the following:

Deposit related and other service charges (recognized in Deposit Fee Income): The Company's deposit accounts are governed by standardized contracts customary in the industry. Revenues are earned at a point in time or over time (monthly) from account maintenance fees and charges for specific transactions such as wire transfers, stop payment orders, overdrafts, debit card replacements, check orders and cashier's checks. The Company's performance obligation related to each of these fees is generally satisfied, and the related revenue recognized, at the time the service is provided (point in time or monthly). The Company is principal in each of these contracts.

Debit and Credit Card Interchange Fees (recognized in Deposit Fee Income): The Company receives interchange fees from the debit card or credit card payment network based on transactions involving debit or credit cards issued by the Company, generally measured as a percentage of the underlying transaction. Interchange fees from debit and credit card transactions are recognized as the transaction processing services are provided by the network. The Company acts as an agent in the card payment network arrangement so the interchange fees are recorded net of any expenses paid to the principal (the card payment network in this case).

Insurance Agency Commissions (recognized in Other Income): WAFD Insurance Group, Inc. is a wholly-owned subsidiary of Washington Federal, N.A. that operates as an insurance agency, selling and marketing property and casualty insurance policies for a small number of high-quality insurance carriers. WAFD Insurance Group, Inc. earns revenue in the form of commissions paid by the insurance carriers for policies that have been sold. In addition to the origination commission, WAFD Insurance Group, Inc. may also receive contingent incentive fees based on the volume of business generated for the insurance carrier and based on policy renewal rates.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD LOOKING STATEMENTS

Washington Federal, Inc. (the "Company" or "Washington Federal") makes statements in this Quarterly Report on Form 10-Q that constitute forward-looking statements. Words such as “expects,” “anticipates,” “believes,” “estimates,” “intends,” “forecasts,” “projects” and other similar expressions or future or conditional verbs such as “will,” “should,” “would” “could” are intended to help identify such forward-looking statements. These statements are not historical facts, but instead represent current expectations, plans or forecasts of the Company and are based on the beliefs and assumptions of the management of the Company and the information available to management at the time that these disclosures were prepared. The Company intends for all such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumptions that are difficult to predict and often are beyond the Company's control. Actual outcomes and results may differ materially from those expressed in, or implied by, the Company's forward-looking statements.

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties discussed elsewhere in this report, including under Item 1A. “Risk Factors,” and in any of the Company's other subsequent Securities and Exchange Commission (“SEC”) filings, which could cause the Company's future results to differ materially from the plans, objectives, goals, estimates, intentions and expectations expressed in forward-looking statements:

- a deterioration in economic conditions, including declines in the real estate market and home sale volumes and financial stress on borrowers (consumers and businesses) as a result of the uncertain economic environment;
- the effects of a severe economic downturn, including high unemployment rates and declines in housing prices and property values, in the Company's primary market areas;
- the effects of and changes in monetary and fiscal policies of the Board of Governors of the Federal Reserve System and the U.S. Government;
- fluctuations in interest rate risk and changes in market interest rates;
- the Company's ability to make accurate assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of its borrowers and the value of the assets securing these loans;
- the Company's ability to successfully complete merger and acquisition activities and realize expected strategic and operating efficiencies associated with such activities;
- legislative and regulatory limitations, including those arising under the Dodd-Frank Act and potential limitations in the manner in which the Company conducts its business and undertake new investments and activities;
- the ability of the Company to obtain external financing to fund its operations or obtain this financing on favorable terms;
- changes in other economic, competitive, governmental, regulatory and technological factors affecting the Company's markets, operations, pricing, products, services and fees;
- the success of the Company at managing the risks involved in the remediation efforts associated with its Bank Secrecy Act program, costs of enhancements to the Bank’s BSA program are greater than anticipated; and governmental authorities undertake enforcement actions or legal proceedings with respect to the Bank’s BSA program beyond those contemplated by the Consent Order, and the potential impact of such matters on the success, timing and ability to pursue the Company’s growth or other business initiatives;
- the success of the Company at managing the risks involved in the foregoing and managing its business; and
- the timing and occurrence or non-occurrence of events that may be subject to circumstances beyond the Company's control.

All forward-looking statements speak only as of the date on which such statements are made, and the Company undertakes no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events, changes to future operating results over time, or the impact of circumstances arising after the date the forward-looking statement was made.

GENERAL & BUSINESS DESCRIPTION

Washington Federal, Inc. is a bank holding company headquartered in Seattle, Washington that conducts its operations through Washington Federal, National Association (“Bank”), a federally chartered national bank subsidiary. Washington Federal, Inc. and

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

its consolidated subsidiaries are engaged primarily in providing lending, depository, insurance and other banking services to consumers, mid-sized to large businesses, and owners and developers of commercial real estate.

The Company's fiscal year end is September 30th. All references to 2018 represent balances as of September 30, 2018 or activity for the fiscal year then ended.

INTEREST RATE RISK

Based on management's assessment of the current interest rate environment, the Company has taken steps, including growing shorter-term loans and transaction deposit accounts, to reduce its interest rate risk profile. The mix of transaction and savings accounts is 58% of total deposits as of March 31, 2019 while the composition of the investment securities portfolio is 24% variable and 76% fixed rate. When interest rates rise, the fair value of the investment securities with fixed rates will decrease and vice versa when interest rates decline. The Company has \$1,553,683,000 of mortgage-backed securities that it has designated as held-to-maturity and are carried at amortized cost. As of March 31, 2019, the net unrealized loss on these securities was \$18,131,000. The Company has \$1,545,606,000 of available-for-sale securities that are carried at fair value. As of March 31, 2019, the net unrealized gain on these securities was \$5,578,000. The Company has executed interest rate swaps to hedge interest rate risk on certain FHLB borrowings. The unrealized gain on these interest rate swaps as of March 31, 2019 was \$5,600,000. All of the above are pre-tax net unrealized gains or losses.

The Company relies on various measures of interest rate risk, including an asset/liability maturity gap analysis, modeling of changes in forecasted net interest income under various rate change scenarios, and the impact of interest rate changes on the net portfolio value ("NPV") of the Company.

Net Interest Income Sensitivity. The Company estimates the sensitivity of its net interest income to changes in market interest rates using an interest rate simulation model that includes assumptions related to the level of balance sheet growth, deposit repricing characteristics and the rate of prepayments for multiple interest rate change scenarios. Interest rate sensitivity depends on certain repricing characteristics in the Company's interest-earnings assets and interest-bearing liabilities, including the maturity structure of assets and liabilities and their repricing characteristics during the periods of changes in market interest rates. The analysis assumes a constant balance sheet. Actual results would differ from the assumptions used in this model, as management monitors and adjusts loan and deposit pricing and the size and composition of the balance sheet to respond to changing interest rates.

In the event of an immediate and parallel increase of 200 basis points in both short and long-term interest rates, the model estimates that net interest income would decrease by 3.0% in the next year. This compares to an estimated decrease of 2.3% as of the September 30, 2018 analysis. The change is primarily due to higher interest rates, lower expected prepayment speeds and shifts in the mix of fixed versus adjustable rate assets, partially offset by a decrease in the estimated deposit betas used for transaction deposits in the Company's asset liability management model. Management estimates that a gradual increase of 300 basis points in short term rates and 100 basis points in long term rates over two years would result in a net interest income decrease of 1.3% in the first year and decrease of 7.2% in the second year assuming a constant balance sheet and no management intervention.

NPV Sensitivity. NPV is an estimate of the market value of shareholders' equity. NPV is calculated as the difference between the present value of expected cash flows from interest-earning assets and the present value of expected cash flows from interest-paying liabilities and off-balance-sheet contracts. The sensitivity of NPV to changes in interest rates provides a view of interest rate risk as it incorporates all future expected cash flows. As of March 31, 2019, in the event of an immediate and parallel increase of 200 basis points in interest rates, the NPV is estimated to decline by \$523,194,000 or 22.6% and the NPV to total assets ratio to decline to 11.7% from a base of 14.1%. As of September 30, 2018, the NPV in the event of a 200 basis point increase in rates was estimated to decline by

\$452,713,000 or 20.5% and the NPV to total assets ratio to decline to 12.1% from a base of 14.2%. The change in NPV sensitivity and lower base NPV ratio is due primarily to higher interest rates that have resulted in lower asset prices as well as greater asset price sensitivity due to lower expected prepayment speeds on fixed rate loans and mortgage-backed securities as of March 31, 2019.

Interest Rate Spread. The interest rate spread is measured as the difference between the rate on total loans and investments and the rate on costing liabilities at the end of each period. The interest rate spread decreased to 2.81% at March 31, 2019 from 2.90% at September 30, 2018. The spread decrease of 9 basis points is primarily due to the rise in short-term interest rates, which resulted in a higher rate being paid on interest-bearing deposits and short-term FHLB borrowings partially offset by a higher rate being earned on cash and adjustable rate loans and investment securities. As of March 31, 2019, the weighted average rate on earning assets increased by 13 basis points to 4.20% compared to September 30, 2018, while the weighted average cost of funds increased by 22 basis points to 1.39%. The interest rate spread decreased to 2.81% at March 31, 2019 from 2.95% at March 31, 2018 due to the same factors described above.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

Net Interest Margin. Net interest margin is measured as net interest income divided by average earning assets for the period. Net interest margin decreased to 3.15% for the quarter ended March 31, 2019 from 3.25% for the quarter ended March 31, 2018. The yield on earning assets increased 26 basis points to 4.45% and the cost of interest bearing liabilities increased 40 basis points to 1.36% over that same period. The higher yield on earning assets is the result of the rise in short-term interest rates, which resulted in a higher rate being earned on cash and adjustable rate loans and investment securities, as well as the shift in mix from investment securities into a higher proportion of loans receivable that carry higher yields on average. The higher rate in interest bearing liabilities was primarily due to the increase in rates on interest-bearing deposit accounts and short-term FHLB advances partially offset by the maturity of certain long-term FHLB advances with higher rates.

The following table sets forth the information explaining the changes in the net interest margin for the period indicated compared to the same period one year ago.

| | Three Months Ended March 31, 2019 | | | Three Months Ended March 31, 2018 | | |
|------------------------------------|--------------------------------------|------------|-----------------|--------------------------------------|------------|-----------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| | (\$ in thousands) | | | (\$ in thousands) | | |
| Assets | | | | | | |
| Loans receivable | \$ 11,824,247 | \$ 141,061 | 4.84 % | \$ 11,138,747 | \$ 126,529 | 4.61 % |
| Mortgaged-backed securities | 2,573,669 | 19,343 | 3.05 | 2,592,340 | 17,667 | 2.76 |
| Cash & Investments | 727,540 | 5,523 | 3.08 | 579,628 | 3,668 | 2.57 |
| FHLB & FRB stock | 138,646 | 1,655 | 4.84 | 131,252 | 1,215 | 3.75 |
| Total interest-earning assets | 15,264,102 | 167,582 | 4.45 % | 14,441,967 | 149,079 | 4.19 % |
| Other assets | 1,156,071 | | | 1,157,987 | | |
| Total assets | \$ 16,420,173 | | | \$ 15,599,954 | | |
| Liabilities and Equity | | | | | | |
| Customer accounts | \$ 11,602,579 | \$ 29,666 | 1.04 % | \$ 10,988,517 | \$ 16,414 | 0.61 % |
| FHLB advances | 2,616,389 | 17,846 | 2.77 | 2,431,556 | 15,364 | 2.56 |
| Total interest-bearing liabilities | 14,218,968 | 47,512 | 1.36 % | 13,420,106 | 31,778 | 0.96 % |
| Other liabilities | 196,926 | | | 170,829 | | |
| Total liabilities | 14,415,894 | | | 13,590,935 | | |
| Stockholders' equity | 2,004,279 | | | 2,009,019 | | |
| Total liabilities and equity | \$ 16,420,173 | | | \$ 15,599,954 | | |
| Net interest income | | \$ 120,070 | | | \$ 117,301 | |
| Net interest margin | | | 3.15 % | | | 3.25 % |

As of March 31, 2019, total assets had increased by \$569,484,000 to \$16,435,208,000 from \$15,865,724,000 at September 30, 2018. During the six months ended March 31, 2019, cash and cash equivalents increased by \$10,904,000, loans receivable increased \$417,755,000, and investment securities increased by \$158,912,000.

Cash and cash equivalents of \$279,554,000 and stockholders' equity of \$2,004,280,000 as of March 31, 2019 provide management with flexibility in managing interest rate risk going forward.

LIQUIDITY AND CAPITAL RESOURCES

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

The principal sources of funds for the Company's activities are loan repayments (including prepayments), net deposit inflows, repayments and sales of investments and borrowings and retained earnings, if applicable. The Company's principal sources of revenue are interest on loans and interest and dividends on investments.

The Bank has a credit line with the Federal Home Loan Bank of Des Moines ("FHLB") up to 45% of total assets depending on specific collateral eligibility. This line provides a substantial source of additional liquidity if needed.

The Bank has entered into borrowing agreements with the FHLB to borrow funds under a short-term floating rate cash management advance program and fixed-rate term loan agreements. All borrowings are secured by stock of the FHLB, deposits with the FHLB, and a blanket pledge of qualifying loans receivable as provided in the agreements with the FHLB. The Bank is also eligible to borrow under the Federal Reserve Bank's primary credit program.

The Company's cash and cash equivalents totaled \$279,554,000 at March 31, 2019, an increase from \$268,650,000 at September 30, 2018. These amounts include the Bank's operating cash.

The Company's net worth at March 31, 2019 was \$2,004,280,000, or 12.20% of total assets. This is an increase of \$7,372,000 from September 30, 2018 when net worth was \$1,996,908,000, or 12.59% of total assets. The Company's net worth was impacted in the six months ended March 31, 2019 by net income of \$104,040,000, the payment of \$30,775,000 in cash dividends, treasury stock purchases of \$69,648,000, as well as other comprehensive income of \$340,000. The ratio of tangible capital to tangible assets at March 31, 2019 was 10.51%. Management believes the Company's strong net worth position allows it to manage balance sheet risk and provide the capital support needed for controlled growth in a regulated environment.

Washington Federal, Inc. and its banking subsidiary are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

Federal banking agencies establish regulatory capital rules that require minimum capital ratios and establish criteria for calculating regulatory capital. Minimum capital ratios for four measures are used for assessing capital adequacy. The standards are indicated in the table below. The common equity tier 1 capital ratio recognizes common equity as the highest form of capital. The denominator for all except the leverage ratio is risk weighted assets. The rules set forth a "capital conservation buffer" of up to 2.5%. In the event that a bank's capital levels fall below the minimum ratios plus these buffers, the bank's regulators may place restrictions on it. These restrictions include reducing dividend payments, share buy-backs, and staff bonus payments. The purpose of these buffers is to require banks to build up capital outside of periods of stress that can be drawn down during periods of stress. As a result, even during periods where losses are incurred, the minimum capital ratios can still be met.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

There are also standards for Adequate and Well Capitalized criteria that are used for “Prompt Corrective Action” purposes. To remain categorized as well capitalized, the Bank and the Company must maintain minimum common equity risk-based, tier 1 risk-based, total risk-based and tier 1 leverage ratios as set forth in the following table.

| (\$ in thousands) | Actual | | Minimum Capital Adequacy Guidelines | | Minimum Well-Capitalized Guidelines | |
|--|-------------|---------|-------------------------------------|---|-------------------------------------|---|
| | Capital | Ratio | Ratio | | Ratio | |
| March 31, 2019 | | | | | | |
| Common Equity Tier I risk-based capital ratio: | | | | | | |
| The Company | \$1,686,665 | 14.27 % | 4.50 | % | NA | |
| The Bank | 1,663,711 | 14.07 % | 4.50 | % | 6.50 | % |
| Tier I risk-based capital ratio: | | | | | | |
| The Company | 1,686,665 | 14.27 % | 6.00 | % | NA | |
| The Bank | 1,663,711 | 14.07 % | 6.00 | % | 8.00 | % |
| Total risk-based capital ratio: | | | | | | |
| The Company | 1,826,001 | 15.44 % | 8.00 | % | NA | |
| The Bank | 1,803,047 | 15.25 % | 8.00 | % | 10.00 | % |
| Tier 1 Leverage ratio: | | | | | | |
| The Company | 1,686,665 | 10.47 % | 4.00 | % | NA | |
| The Bank | 1,663,711 | 10.33 % | 4.00 | % | 5.00 | % |

September 30, 2018

Common Equity Tier 1 risk-based capital ratio:

| | | | | | | |
|----------------------------------|-------------|---------|------|---|-------|---|
| The Company | \$1,678,475 | 14.71 % | 4.50 | % | NA | |
| The Bank | 1,661,628 | 14.55 % | 4.50 | % | 6.50 | % |
| Tier I risk-based capital ratio: | | | | | | |
| The Company | 1,678,475 | 14.71 % | 6.00 | % | NA | |
| The Bank | 1,661,628 | 14.55 % | 6.00 | % | 8.00 | % |
| Total risk-based capital ratio: | | | | | | |
| The Company | 1,814,981 | 15.91 % | 8.00 | % | NA | |
| The Bank | 1,798,135 | 15.75 % | 8.00 | % | 10.00 | % |
| Tier 1 Leverage ratio: | | | | | | |
| The Company | 1,678,475 | 10.85 % | 4.00 | % | NA | |
| The Bank | 1,661,628 | 10.74 % | 4.00 | % | 5.00 | % |

CHANGES IN FINANCIAL CONDITION

Cash and cash equivalents: Cash and cash equivalents are \$279,554,000 at March 31, 2019, an increase of \$10,904,000, or 4.1%, since September 30, 2018.

Available-for-sale and held-to-maturity investment securities: Available-for-sale securities increased \$230,649,000, or 17.5%, during the six months ended March 31, 2019, mostly due to purchases of \$290,574,000 and an increase to net unrealized gain of \$17,100,000, partially offset by principal repayments and maturities of \$75,483,000. During the same period, the balance of held-to-maturity securities decreased by \$71,737,000 primarily due to principal pay-downs and maturities of \$70,096,000. As of March 31, 2019, the Company had a net unrealized gain on available-for-sale securities of \$5,578,000, which is included on a net of tax basis in accumulated other comprehensive income (loss).

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

Loans receivable: Loans receivable, net of related contra accounts, increased by \$417,755,000 to \$11,894,836,000 at March 31, 2019, compared to \$11,477,081,000 at September 30, 2018. The increase resulted primarily from originations of \$2,044,371,000 partially offset by loan principal repayments of \$1,644,701,000. Commercial loan originations accounted for 75% of total originations and consumer loan originations were 25% during the period. The increase in the loan portfolio is consistent with management's strategy during low rate environments to produce more construction, multifamily, commercial real estate, and commercial and industrial loans that generally have adjustable interest rates or a shorter duration.

The following table shows the loan portfolio by category and the change.

| | March 31, 2019 | | September 30, 2018 | | Change | |
|--|-------------------|-------|--------------------|-------|-----------|--------|
| | (\$ in thousands) | | (\$ in thousands) | | \$ | % |
| Gross loans by category | | | | | | |
| Single-family residential | \$5,861,404 | 44.3% | \$5,798,966 | 45.1% | \$62,438 | 1.1% |
| Construction | 1,980,274 | 15.0 | 1,890,668 | 14.7 | 89,606 | 4.7 |
| Construction - custom | 586,515 | 4.4 | 624,479 | 4.9 | (37,964) | (6.1) |
| Land - acquisition & development | 194,739 | 1.5 | 155,204 | 1.2 | 39,535 | 25.5 |
| Land - consumer lot loans | 97,152 | 0.7 | 102,036 | 0.8 | (4,884) | (4.8) |
| Multi-family | 1,423,723 | 10.7 | 1,385,125 | 10.8 | 38,598 | 2.8 |
| Commercial real estate | 1,570,502 | 11.9 | 1,452,168 | 11.3 | 118,334 | 8.1 |
| Commercial & industrial | 1,230,888 | 9.3 | 1,140,874 | 8.9 | 90,014 | 7.9 |
| HELOC | 139,203 | 1.0 | 130,852 | 1.0 | 8,351 | 6.4 |
| Consumer | 156,002 | 1.2 | 173,306 | 1.3 | (17,304) | (10.0) |
| Total gross loans | 13,240,402 | 100% | 12,853,678 | 100% | 386,724 | 3.0% |
| Less: | | | | | | |
| Allowance for loan losses | 133,086 | | 129,257 | | 3,829 | 3.0% |
| Loans in process | 1,162,787 | | 1,195,506 | | (32,719) | (2.7) |
| Net deferred fees, costs and discounts | 49,693 | | 51,834 | | (2,141) | (4.1) |
| Total loan contra accounts | 1,345,566 | | 1,376,597 | | (31,031) | (2.3) |
| Net Loans | \$11,894,836 | | \$11,477,081 | | \$417,755 | 3.6% |

Non-performing assets: Non-performing assets decreased \$10,521,000 during the six months ended March 31, 2019 to \$59,572,000 from \$70,093,000 at September 30, 2018. The change is due to a \$6,745,000 decrease in non-accrual loans and \$3,776,000 decline in real estate owned ("REO"). Non-performing assets as a percentage of total assets was 0.36% at March 31, 2019 compared to 0.44% at September 30, 2018.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

The following table sets forth information regarding restructured loans and non-performing assets.

| | March 31, 2019 | | September 30, 2018 | |
|---|-------------------|-------|-----------------------|-------|
| | (\$ in thousands) | | | |
| Restructured loans: | | | | |
| Single-family residential | \$126,265 | 89.8% | \$139,797 | 89.1% |
| Land - acquisition & development | 99 | 0.1 | 107 | 0.1 |
| Land - consumer lot loans | 4,489 | 3.2 | 4,916 | 3.1 |
| Multi - family | 419 | 0.3 | 448 | 0.3 |
| Commercial real estate | 4,942 | 3.5 | 6,254 | 4.0 |
| Commercial & industrial | 3,360 | 2.4 | 4,290 | 2.7 |
| HELOC | 960 | 0.7 | 976 | 0.6 |
| Consumer | 65 | — | 70 | — |
| Total restructured loans (1) | \$140,599 | 100 % | \$156,858 | 100 % |
| Non-accrual loans: | | | | |
| Single-family residential | \$24,474 | 50.0% | \$27,643 | 49.6% |
| Construction | 1,282 | 2.6 | 2,427 | 4.4 |
| Construction - custom | — | — | — | — |
| Land - acquisition & development | 242 | 0.5 | 920 | 1.7 |
| Land - consumer lot loans | 579 | 1.2 | 787 | 1.4 |
| Multi-family | — | — | — | — |
| Commercial real estate | 9,162 | 18.7 | 8,971 | 16.1 |
| Commercial & industrial | 12,366 | 25.3 | 14,394 | 25.8 |
| HELOC | 812 | 1.7 | 523 | 0.9 |
| Consumer | 24 | — | 21 | — |
| Total non-accrual loans | 48,941 | 100 % | 55,686 | 100 % |
| Real estate owned | 7,522 | | 11,298 | |
| Other property owned | 3,109 | | 3,109 | |
| Total non-performing assets | \$59,572 | | \$70,093 | |
| Total non-performing assets and performing restructured loans as a percentage of total assets | 1.19 | % | 1.39 | % |
| Total Assets | | | | |
| (1) Restructured loans were as follows: | | | | |
| Performing | \$136,233 | 96.9% | \$150,667 | 96.1% |
| Non-performing (included in non-accrual loans above) | 4,366 | 3.1 | 6,191 | 3.9 |
| | \$140,599 | 100 % | \$156,858 | 100 % |

For the six months ended March 31, 2019, the Company recognized \$1,571,000 in interest income on cash payments received from borrowers on non-accrual loans. The Company would have recognized interest income of \$1,151,000 for the same period had these loans performed according to their original contract terms. Recognized interest income for the six months ended March 31, 2019 was higher than what otherwise would have been collected in the period due to the collection of past due amounts. In addition to the non-accrual loans reflected in the above table, the Company had \$71,263,000 of loans that were less than 90 days delinquent at March 31, 2019 but were classified as substandard for one or more reasons. If these loans were deemed non-performing, the Company's ratio of total NPAs and performing restructured loans as a percent of total assets would have increased to 1.62% at March 31, 2019.

Restructured single-family residential loans are reserved for under the Company's general reserve methodology. If any individual loan is significant in balance, the Company may establish a specific reserve as warranted.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

Most restructured loans are accruing and performing loans where the borrower has proactively approached the Bank about modifications due to temporary financial difficulties. Each request is individually evaluated for merit and likelihood of success. Single-family residential loans comprised 89.8% of restructured loans as of March 31, 2019. The concession for these loans is typically a payment reduction through a rate reduction of 100 to 200 bps for a specific term, usually six to twenty-four months. Interest-only payments may also be approved during the modification period.

For commercial loans, six consecutive payments on newly restructured loan terms are generally required prior to returning the loan to accrual status. In some instances after the required six consecutive payments are made, a management assessment will conclude that collection of the entire principal balance is still in doubt. In those instances, the loan will remain on non-accrual. Homogeneous loans may or may not be on accrual status at the time of restructuring, but all are placed on accrual status upon the restructuring of the loan. Homogeneous loans are restructured only if the borrower can demonstrate the ability to meet the restructured payment terms; otherwise, collection is pursued and the loan remains on non-accrual status until liquidated. If the homogeneous restructured loan does not perform, it will be placed in non-accrual status when it is 90 days delinquent.

A loan that defaults and is subsequently modified would impact the Company's delinquency trend, which is part of the qualitative risk factors component of the general reserve calculation. Any modified loan that re-defaults and is charged-off would impact the historical loss factors component of the Company's general reserve calculation.

Allowance for loan losses: The following table shows the Company's allowance for loan losses by loan category.

| March 31, 2019 | Loans Collectively Evaluated for Impairment | | | Loans Individually Evaluated for Impairment | | |
|----------------------------------|---|------------------------------|-------|---|------------------------------|-------|
| | Allowance Allocation | Recorded Investment of Loans | Ratio | Allowance Allocation | Recorded Investment of Loans | Ratio |
| | (\$ in thousands) | | | (\$ in thousands) | | |
| Single-family residential | \$ 31,476 | \$ 5,848,663 | 0.5 % | \$ — | \$ 16,836 | — % |
| Construction | 33,396 | 1,138,688 | 2.9 | — | 1,282 | — |
| Construction - custom | 1,976 | 307,405 | 0.6 | — | — | — |
| Land - acquisition & development | 9,727 | 152,304 | 6.4 | 7 | 242 | 2.9 |
| Land - consumer lot loans | 2,076 | 92,614 | 2.2 | — | 309 | — |
| Multi-family | 7,390 | 1,422,864 | 0.5 | 4 | 837 | 0.5 |
| Commercial real estate | 12,328 | 1,552,990 | 0.8 | 120 | 17,512 | 0.7 |
| Commercial & industrial | 30,329 | 1,219,921 | 2.5 | 245 | 12,651 | 1.9 |
| HELOC | 1,082 | 137,716 | 0.8 | — | 528 | — |
| Consumer | 2,930 | 154,201 | 1.9 | — | 52 | — |
| | \$ 132,710 | \$ 12,027,366 | 1.1 % | \$ 376 | \$ 50,249 | 0.7 % |

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

| September 30, 2018 | Loans Collectively Evaluated for Impairment | | | Loans Individually Evaluated for Impairment | | |
|----------------------------------|---|------------------------------|-------|---|------------------------------|-------|
| | Allowance Allocation | Recorded Investment of Loans | Ratio | Allowance Allocation | Recorded Investment of Loans | Ratio |
| | (\$ in thousands) | | | (\$ in thousands) | | |
| Single-family residential | \$ 33,033 | \$ 5,782,870 | 0.6 % | \$ — | \$ 21,345 | — % |
| Construction | 31,317 | 1,060,428 | 3.0 | — | 2,427 | — |
| Construction - custom | 1,842 | 289,192 | 0.6 | — | — | — |
| Land - acquisition & development | 7,969 | 122,639 | 6.5 | 9 | 920 | 1.0 |
| Land - consumer lot loans | 2,164 | 96,583 | 2.2 | — | 507 | — |
| Multi-family | 8,325 | 1,384,655 | 0.6 | 4 | 448 | 1.0 |
| Commercial real estate | 11,702 | 1,432,791 | 0.8 | 150 | 19,378 | 0.8 |
| Commercial & industrial | 28,348 | 1,126,438 | 2.5 | 354 | 14,437 | 2.5 |
| HELOC | 781 | 128,715 | 0.6 | — | 1,162 | — |
| Consumer | 3,259 | 173,181 | 1.9 | — | 56 | — |
| | \$ 128,740 | \$ 11,597,492 | 1.1 % | \$ 517 | \$ 60,680 | 0.9 % |

Reserve for losses on unfunded commitments: Unfunded commitments tend to vary depending on the Company's loan mix and the proportionate share of commercial loans. The balance of unfunded commitments was \$2,265,227,000 and \$2,180,162,000 at March 31, 2019 and September 30, 2018, respectively. The Company estimates losses on off-balance-sheet credit exposures by allocating a loss percentage derived from historical loss factors for each asset class. The reserve for unfunded commitments was \$6,250,000 as of March 31, 2019, which is a decrease from \$7,250,000 at September 30, 2018.

Management believes the allowance for loan losses plus the reserve for unfunded commitments, totaling \$139,336,000, or 1.05% of gross loans, is sufficient to absorb estimated losses inherent in the portfolio of loans and unfunded commitments. See Note E for further discussion and analysis of the allowance for loan losses as of and for the period ended March 31, 2019.

Real estate owned: REO decreased during the six months ended March 31, 2019 by \$3,776,000 to \$7,522,000, primarily due to sales of REO properties during the period.

Intangible assets: Intangible assets decreased to \$310,266,000 as of March 31, 2019 from \$311,286,000 as of September 30, 2018. The decrease was due to amortization of finite-lived intangible assets.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

Customer accounts: Customer accounts increased \$335,217,000, or 2.9%, to \$11,722,363,000 at March 31, 2019 compared with \$11,387,146,000 at September 30, 2018.

The following table shows the composition of the Bank's customer accounts by deposit type.

| | March 31, 2019 | | | September 30, 2018 | | |
|-----------------------|-------------------------|--------------------------|-----------------------|-------------------------|--------------------------|-----------------------|
| | Deposit Account Balance | As a % of Total Deposits | Weighted Average Rate | Deposit Account Balance | As a % of Total Deposits | Weighted Average Rate |
| (\$ in thousands) | | | | | | |
| Non-interest checking | \$ 1,409,633 | 12.0 % | — % | \$ 1,401,226 | 12.3 % | — % |
| Interest checking | 1,916,866 | 16.4 | 0.70 | 1,778,520 | 15.6 | 0.50 |
| Savings | 805,065 | 6.9 | 0.14 | 836,501 | 7.3 | 0.11 |
| Money market | 2,651,434 | 22.6 | 0.83 | 2,566,096 | 22.5 | 0.65 |
| Time deposits | 4,939,365 | 42.1 | 1.84 | 4,804,803 | 42.2 | 1.50 |
| Total | \$ 11,722,363 | 100 % | 1.09 % | \$ 11,387,146 | 100 % | 0.87 % |

FHLB advances and other borrowings: Total borrowings increased to \$2,610,000,000 as of March 31, 2019 from \$2,330,000,000 as of September 30, 2018. The weighted average rate for FHLB borrowings was 2.77% as of March 31, 2019 and 2.66% at September 30, 2018. The increase was due to higher rates on short-term FHLB advances.

Stockholders' equity: The Company's total stockholders' equity at March 31, 2019 was \$2,004,280,000, or 12.20% of total assets. This was an increase of \$7,372,000 from the September 30, 2018 total of \$1,996,908,000, or 12.59% of total assets. The Company's equity was impacted in the six months ended March 31, 2019 by net income of \$104,040,000, the payment of \$30,775,000 in cash dividends, treasury stock purchases of \$69,648,000, as well as other comprehensive income of \$340,000.

RESULTS OF OPERATIONS

Net Income: The Company recorded net income of \$51,098,000 for the three months ended March 31, 2019 compared to \$49,271,000 for the prior year quarter. The Company recorded net income of \$104,040,000 for the six months ended March 31, 2019 compared to \$100,941,000 for the same period one year ago.

Net Interest Income: For the three months ended March 31, 2019, net interest income was \$120,070,000, which is \$2,769,000 higher than the same quarter of the prior year. Net interest margin was 3.15% for the quarter ended March 31, 2019 compared to 3.25% for the quarter ended March 31, 2018. The increase in net interest income was primarily due to the average balance of earning assets increasing by \$822,135,000 and the yield on earning assets increasing to 4.45% from 4.19%, partially offset by the higher average balance and a higher average rate paid on interest-bearing liabilities, which was 1.36% for the three months ended March 31, 2019 compared to 0.96% for the same quarter one year ago. For the six months ended March 31, 2019, net interest income was \$239,222,000, which is \$6,186,000 higher than the same period for the prior year. Net interest margin was 3.18% for the six months ended March 31, 2019 compared to 3.26% for the same period of the prior year. The higher yield on earning assets is the result of the rise in short-term interest rates, which resulted in a higher rate being earned on cash and adjustable rate loans and investment securities, as well as the shift in mix from investment securities into a higher proportion of loans receivable that carry higher yields on average. The higher rate on interest-bearing liabilities was primarily due to the increase in rates on interest-bearing deposit accounts and short-term FHLB advances, partially offset by the maturity of certain long-term FHLB advances with higher rates.

The following table sets forth certain information explaining changes in interest income and interest expense for the period indicated compared to the same period one year ago. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to (1) changes in volume (changes in volume multiplied by old rate) and (2) changes in rate (changes in rate multiplied by old volume). The change in interest income and interest expense attributable to changes in both volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

Rate / Volume Analysis:

| (\$ in thousands) | Comparison of Three Months Ended | | | Comparison of Six Months Ended | | |
|------------------------------------|-------------------------------------|-----------|----------|-----------------------------------|-----------|----------|
| | 03/31/19 and 03/31/18 | | | 03/31/19 and 03/31/18 | | |
| | Volume | Rate | Total | Volume | Rate | Total |
| Interest income: | | | | | | |
| Loans receivable | \$8,027 | \$6,505 | \$14,532 | \$14,555 | \$12,531 | \$27,086 |
| Mortgaged-backed securities | (133) | 1,809 | 1,676 | 365 | 3,604 | 3,969 |
| Investments (1) | 1,186 | 1,109 | 2,295 | 1,298 | 2,992 | 4,290 |
| All interest-earning assets | 9,080 | 9,423 | 18,503 | 16,218 | 19,127 | 35,345 |
| Interest expense: | | | | | | |
| Customer accounts | 971 | 12,281 | 13,252 | 1,787 | 23,406 | 25,193 |
| FHLB advances and other borrowings | 1,194 | 1,288 | 2,482 | 2,259 | 1,707 | 3,966 |
| All interest-bearing liabilities | 2,165 | 13,569 | 15,734 | 4,046 | 25,113 | 29,159 |
| Change in net interest income | \$6,915 | \$(4,146) | \$2,769 | \$12,172 | \$(5,986) | \$6,186 |

(1) Includes interest on cash equivalents and dividends on FHLB & FRB stock.

Provision (Release) for Loan Losses: The Company recorded a provision for loan losses of \$750,000 for the three months ended March 31, 2019, compared with a \$950,000 release of loan loss allowance for the three months ended March 31, 2018. A provision for loan losses of \$250,000 and a release of allowance for loan losses of \$950,000 was recorded during the six months ended March 31, 2019 and March 31, 2018, respectively. Reserving for new loan originations as the loan portfolio grows has been largely offset by recoveries of previously charged-off loans. Recoveries, net of charge-offs, totaled \$1,171,000 for the three months ended March 31, 2019, compared to net recoveries of \$1,371,000 during the three months ended March 31, 2018. Recoveries, net of charge-offs, totaled \$2,579,000 for the six months ended March 31, 2019, compared to net recoveries of \$4,453,000 during the six months ended March 31, 2018.

Other Income: The three months ended March 31, 2019 results include total other income of \$12,810,000 compared to \$12,587,000 for the same period one year ago, a \$223,000 increase. Results for the six months ended March 31, 2019 include total other income of \$31,819,000, an increase of \$12,437,000 from the \$19,382,000 for the same period one year ago. The increase is primarily due to a net gain of \$6,400,000 recognized in three months ended December 31, 2018 from the sale and valuation adjustments of fixed assets as well as \$8,550,000 of expense from FDIC loss share valuation adjustments recognized in the three months ended December 31, 2017.

Other Expense: Operating expenses have increased as a result of ongoing investments in people, process and technology with the objective of growing market share and ultimately earnings. The three months ended March 31, 2019 results include total other expense of \$67,967,000 compared to \$65,787,000 for the same period one year ago, a \$2,180,000 increase. The increase is primarily due to compensation and benefits costs increasing by \$1,149,000 from headcount increases and cost of living adjustments since last year. The number of staff, including part-time employees on a full-time equivalent basis, increased by 3.6% to 1,921 at March 31, 2019 from 1,855 at March 31, 2018. In addition, other expenses increased by \$1.2 million, primarily due to Bank Secrecy Act (BSA) program enhancements. Results for the six months ended March 31, 2019 include total other expense of \$139,639,000, an increase of \$11,911,000 from the \$127,728,000 for the same period one year ago. The increase is primarily due to compensation and benefits costs increasing by \$5,413,000 from headcount increases, cost of living adjustments and an additional 5% salary increase for all employees earning less than \$100,000 since last year. Additionally, information technology costs were \$1,085,000 higher and other expenses were \$4,886,000 higher than last year, primarily due to BSA program enhancements. Total other expense for the six months ended March 31, 2019 and March 31, 2018 equaled 1.72% and 1.65%, respectively, of average assets.

Gain (Loss) on Real Estate Owned: Results for the three months ended March 31, 2019 include a net gain on real estate owned of \$808,000, compared to a net loss of \$278,000 for the same period one year ago. Results for the six months ended March 31, 2019 include a net gain on real estate owned of \$1,128,000, compared to a net loss of \$232,000 for the same period one year ago.

Income Tax Expense: Income tax expense totaled \$13,873,000 for the three months ended March 31, 2019, compared to \$15,502,000 for the same period one year ago. Income tax expense totaled \$28,240,000 for the six months ended March 31, 2019,

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

compared to \$24,467,000 for the year ago period. The effective tax rate for the six months ended March 31, 2019 was 21.35% compared to 19.51% for the six months ended March 31, 2018 and 20.76% for the full fiscal year ended September 30, 2018. The effective tax rate for the six months ended March 31, 2018 and the full fiscal year ended September 30, 2018 was lower due to discrete tax benefits recognized related to the revaluation of deferred tax assets and liabilities based on the new federal statutory rate enacted in December 2017.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Management believes that there have been no material changes in the Company's quantitative and qualitative information about market risk since September 30, 2018. For a complete discussion of the Company's quantitative and qualitative market risk, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2018 Form 10-K.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. The Company maintains a set of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective.

(b) Changes in Internal Control over Financial Reporting. During the period to which this report relates, there have not been any changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or that are reasonably likely to materially affect, such controls.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART II – Other Information

Item 1. Legal Proceedings

From time to time, the Company and its subsidiaries are engaged in legal proceedings in the ordinary course of business, none of which are considered to have a material impact on the Company's consolidated financial statements.

Item 1A. Risk Factors

In addition to the other information set forth below and in this report, you should carefully consider the factors discussed under "Part I--Item 1A--Risk Factors" in the 2018 Form 10-K for the year ended September 30, 2018. These factors could materially and adversely affect the Company's business, financial condition, liquidity, results of operations and capital position, and could cause its actual results to differ materially from its historical results or the results contemplated by the forward-looking statements contained in this report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information with respect to purchases made by or on behalf of the Company of the Company's common stock during the three months ended March 31, 2019.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan (1) | Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period |
|---------------------------------------|----------------------------------|------------------------------|---|--|
| January 1, 2019 to January 31, 2019 | 17,694 | \$ 27.57 | 17,694 | 10,274,712 |
| February 1, 2019 to February 28, 2019 | 57,271 | 29.54 | 57,271 | 10,217,441 |
| March 1, 2019 to March 31, 2019 | 623,740 | 29.72 | 623,740 | 9,593,701 |
| Total | 698,705 | \$ 29.65 | 698,705 | 9,593,701 |

The Company's stock repurchase program was publicly announced by its Board of Directors on February 3, 1995 (1) and has no expiration date. Under this ongoing program, a total of 66,956,264 shares were authorized for repurchase.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

(a) Exhibits

31.1 Section 302 Certification by the Chief Executive Officer

31.2 Section 302 Certification by the Chief Financial Officer

32 Section 906 Certification by the Chief Executive Officer and Chief Financial Officer

101 Financial Statements from the Company's Form 10-Q for the three months ended March 31, 2019 formatted in XBRL

49

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

May 1, 2019 /S/ BRENT J. BEARDALL
BRENT J. BEARDALL
President & Chief Executive Officer

May 1, 2019 /S/ VINCENT L. BEATTY
VINCENT L. BEATTY
Executive Vice President and Chief Financial Officer

May 1, 2019 /S/ CORY D. STEWART
CORY D. STEWART
Senior Vice President and Principal Accounting Officer

50